



***MO*Lottery**

**Comprehensive Annual
Financial Report**

For Fiscal Years Ended June 30, 2019 and 2018

Missouri State Lottery Commission
An Enterprise Fund of the State of Missouri



MO Lottery

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Financial Report**

For Fiscal Years Ended June 30, 2019 and 2018

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An Enterprise Fund of the State of Missouri

Prepared by Financial and Business Services

Missouri State Lottery Commission
(An Enterprise Fund of the State of Missouri)
Comprehensive Annual Financial Report
For Fiscal Years Ended June 30, 2019 and 2018

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Introductory Section



Letter of Transmittal

November 15, 2019

To: Paul K. Kincaid, Chairperson, Missouri State Lottery Commission
Mr. Michael J. Grewe, Vice Chair
Mr. Robert R. Gattermeir, Member
Mr. John Hannegan, Member
Mr. Lance Member
May Scheve Reardon, Executive Director
Citizens of the State of Missouri

Introduction

We are pleased to submit to you this Comprehensive Annual Financial Report (CAFR) of the Missouri State Lottery Commission (the Lottery) for the years ended June 30, 2019 and 2018. Management is responsible for the accuracy of the data, as well as the completeness and fairness of the information and disclosures within this report. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the position, results of operations and cash of the Lottery. We have included all disclosures necessary to enable the reader to gain an understanding of the Lottery’

The Comprehensive Annual Financial Report presents an overview of the Lottery and is organized into four sections. The Introductory Section includes this letter of transmittal, of achievement and an organizational chart. The Financial Section includes the report of independent auditors, management’s discussion and analysis, the basic statements with the accompanying notes, and required supplementary information. The Statistical Section presents a variety of historical, demographic and industry data. The section, Compliance Section, includes a report on internal control and compliance.

Background

The Lottery was created by the passage of a constitutional amendment on November 6, 1984, by the citizens of the State of Missouri. Ticket sales began January 20, 1986, with the introduction of a single scratch-off game, “Jackpot ‘86.” This represented the legislatively authorized lottery tickets sold in Missouri since the New Franklin Railroad Lottery (later known as the Missouri State Lottery) was closed down in 1877.

When the Lottery began in 1986, proceeds from ticket sales went to the Missouri State General Revenue Fund. In August 1992, voters passed Amendment 11 earmarking Lottery proceeds to solely public education. Each year, the Missouri Legislature determines how these proceeds will be allocated. The proceeds represent about 4 percent of the total funding for Missouri’s public elementary, secondary and higher education systems.

Lottery funds help support a variety of programs including the elementary and secondary education Foundation formula, transportation, early childhood development and special education services, vocational rehabilitation, residential placements, performance-based assessment program, Access Missouri and A+ programs, college and university operating budgets, virtual schools, and veterinary student loan payments. These programs and others that receive Lottery money provide the resources that help Missouri students their individual dreams —

The Lottery is a Type III division assigned to the Missouri Department of Revenue as in Section 313.210 of the Missouri Revised Statutes. The Department of Revenue has no control, supervision or authority over the actions or decisions of the Lottery. The Lottery Commission consists of members appointed by the Governor with the advice and consent of the Senate.

The Lottery is an enterprise fund of the State of Missouri and is included in the State's Comprehensive Annual Financial Report. This report presents the activity of the Lottery as a single enterprise fund and does not include information related to any other state agency or fund.

Products

The Lottery provides the opportunity for the public to participate in a variety of instant games ("Scratchers"), Draw Games, and Pull-Tab games. The games are described as follows:

Scratchers Games are played by scratching off a latex coating on the play area of the ticket. There are different ways to win, including matching certain symbols, adding up to a total or otherwise satisfying the requirements listed on the ticket. If the condition occurs, the ticket is an instant winner. These play styles are combined with a variety of game themes and ticket prices. These games were the type of games offered by the Lottery. For year 2019, Scratchers ticket sales were \$914.4 million, which represents 62.4 percent of total ticket sales.



Draw Games allow players to select the numbers for their wager or players may utilize computer-generated plays (Quick Picks). The player receives a ticket with the numbers selected or automatically generated and must await the results of a drawing to determine if they have matched the numbers and won.

Powerball is a multi-state Draw Game jointly operated by the 36 MISSOURI member lotteries of the Multi-State Lottery Association and sold in 44 states, D.C., Puerto Rico and the U.S. Virgin Islands. Players select one set of numbers from a pool of one to 69 and one additional number designated as the "Powerball" from a second



pool of one to 26. To win the jackpot, all six numbers must be matched. The minimum jackpot amount is \$40 million, which increases for each subsequent draw when the jackpot is not won. There are eight secondary prizes of amounts, ranging from \$4 to \$1,000,000. The Power Play feature allows players the chance to increase the original prize amount, excluding the jackpot prize. Players who use Power Play and match all white-ball numbers automatically win \$2 million. A jackpot winner may select either an annuitized prize paid over 29 years (30 payments) or a lump-sum payment. Drawings are held every Wednesday and Saturday night. Powerball ch represents 6.7 percent of total ticket sales.



Missouri Lotto is the original in-state Draw Game that creates millionaires. Twice a week, on Wednesdays and Saturdays, Lotto players have a chance to win \$1 million or more. Players select six numbers from a pool of one to 44 and must match all six numbers to win the jackpot. Prizes are also paid for matching three, four or numbers. The jackpot starts at \$1 million and increases, based upon ticket sales, for each subsequent draw when the jackpot is not won. Jackpot winners may select either an annuitized prize over 24 years (25 payments) or a lump-sum payment. Lotto Doubler was added beginning November 4, 2012, giving players the chance to double their non-jackpot winnings whenever a Lotto ticket is purchased. Through a random process, the Lottery designates certain Lotto tickets as Doubler tickets. There is no additional cost for the Doubler feature. EZ Match was added beginning November 2016. Players can add EZ Match for an additional \$1 per Lotto play. If the EZ Match option is chosen, six EZ Match numbers print on the Lotto ticket below the Lotto numbers. If any of the EZ Match numbers match the Lotto numbers purchased (regardless of order), the player instantly wins the prize amount printed next to the matched EZ Match numbers. Lotto and EZ Match sales were approximately \$18.7 million and \$.6 million in year 2019, representing 1.3 percent and 0.04 percent of total ticket sales, respectively.

Show Me Cash replaced Show Me 5 Paydown in September of 2008. Players select numbers from a pool of one to 39 and must match all numbers to win the jackpot. The jackpot starts at \$50,000, and if no player matches all numbers, the top prize increases based on ticket sales. Prizes are also paid for matching two, three or four numbers. Drawings are held daily. Players can add EZ Match for an additional \$1 per Show Me Cash play. If the EZ Match option is chosen, EZ Match numbers print on the Show Me Cash



ticket below the Show Me Cash numbers. If any of the EZ Match numbers match the Show Me Cash numbers purchased (regardless of order), the player instantly wins the prize amount printed next to the matched EZ Match numbers. Fiscal year 2019 Show Me Cash and EZ Match sales were approximately \$31.7 million and \$2.6 million, or 2.2 percent and 0.2 percent of total ticket sales, respectively.



With Pick 3, players select three numbers between zero and nine and can play the numbers straight (numbers in the exact order), boxed (numbers in any order), front/back pair (match the exact order of the or last two digits), or combo (provides the player all possible number combinations of the three numbers drawn for exact-order win). Beginning June 16, 2013, a new 1-Off wager type was added (win even if numbers are one number higher or lower than the winning numbers drawn), and EZ Match was added beginning November 2016. Players can add EZ Match for an additional \$1 per Pick 3 play. If the EZ Match option is chosen, three EZ Match numbers print on the Pick 3 ticket below the Pick 3 numbers. If any of the EZ Match numbers match the Pick 3 numbers purchased (regardless of order), the player instantly wins the prize amount printed next to the matched EZ Match numbers. Drawings are conducted twice per day. For year 2019, Pick 3 and EZ Match sales were \$83.4 million and \$.5 million, which was 5.7 percent and 0.03 percent of total ticket sales, respectively.

Pick 4 is played similar to Pick 3 with players selecting four numbers between zero and nine. Players may play the numbers straight, boxed, front/middle/back pair, front/back three (match the exact order of the or last three digits), or combo (provides the player all possible number combinations of the four numbers drawn for exact-order win). Similar to Pick 3, the 1-Off wager type (win even if numbers are one number higher or lower than the winning numbers drawn) and the EZ Match feature were also added to Pick 4. Drawings are conducted twice per day for Pick 4. Fiscal year 2019 Pick 4 and EZ Match sales were \$54.7 million and \$.4 million, or 3.7 percent and 0.03 percent of total ticket sales, respectively.



Club Keno is a Draw Game offered in all Missouri Lottery retail locations and provides drawings every four minutes. Players choose how many different numbers (also called “spots”) they wish to play from one to 10. The player must then choose a number from one to 80 for each spot. Twenty numbers from the pool of one to 80 are chosen in a computerized random Club Keno drawing. Prizes vary depending on how many spots a player chooses and how many of the players’ numbers match the numbers drawn. Club Keno also offers Multiplier, Bulls-Eye, Progressive Jackpot and Double Bulls-Eye features. For year 2019, Club Keno sales were \$57.3 million, which was 3.9 percent of total ticket sales.

Mega Millions is a multi-state Draw Game available for sale in 44 states, D.C. and the U.S. Virgin Islands. Beginning October 28, 2017, the ticket price increased from \$1 to \$2. Players select different numbers from a pool of one to 70 then select one Mega Ball number between 1 and 25. The jackpot starts at \$40 million and increases for each draw when the jackpot is not won. (Prior to October 28, 2017, players selected different numbers from a pool of one to 75, one Mega Ball number between 1 and 15, and the starting jackpot was \$15 million). All six numbers must be matched to win the jackpot. There are eight secondary prizes of amounts ranging from \$2 to \$1,000,000. Players have the option to select the Megaplier feature that will increase the non-jackpot prize winnings by two, three, four or times their original amount. A jackpot winner may select a lump-sum payment or an annuity paid over 29 years (30 payments). Drawings are held every Tuesday and Friday night. Mega Millions sales for year 2019 were approximately \$81.8 million, which represents 5.6 percent of total ticket sales.



Lucky for Life was launched in January of 2015 and is the Lottery’s newest multi-state Draw Game. It is currently offered in 25 states and D.C. For \$2, the game features a top prize of \$1,000 a day for life and a second prize of \$25,000 a year for life. Top and second prize winners may select either an annuitized prize over a minimum of 20 years or a lump-sum payment. Players select numbers from 1 to 48 then one number (the Lucky Ball) from 1 to 18. Drawings are held on Monday and Thursday nights. Fiscal year 2019 sales were \$8.2 million, or 0.6 percent of total ticket sales.

Pull-Tabs were re-introduced in October of 2013 using new dispensers that allow for better security and accounting. Pull-Tabs are Lottery tickets with tabs that are pulled open to reveal cash prizes. Players also have the option to play through the dispenser's interactive touch-screen. The cost of the tickets is 50 cents, \$1 or \$2 and the top prize is \$600. During year 2019, sales from this product line were approximately \$114.1 million, or 7.8 percent of total ticket sales.



Highlights of The Past Year

Ticket sales for the Lottery surpassed the \$1 billion mark for the ninth year in a row and set a new record high. Fiscal year 2019 sales of \$1.466 billion were ahead of year 2018 sales of \$1.400 billion by \$65.8 million, or 4.7 percent. Scratchers sales and Draw Games sales were up \$7.7 million and \$30.1 million, respectively, while Pull-Tab sales were up \$28.0 million compared to previous year levels.

For year 2019, the level of operating expenses increased by 7.48 percent. Total operating expenses increased from \$1,086.8 million in year 2018 to \$1,168.1 million in year 2019. The increase is attributable mainly to prizes, retailer commissions and incentives, and tickets costs related to increased sales. The Lottery continues to operate with one of the lowest administrative cost ratios in the country. The net impact of these results for year 2019 was the highest actual cash transfer of to public education in Lottery history of \$323.0 million, up from year 2018's actual cash transfer of \$306.1 million. In addition, the Lottery returned \$1,015.1 million to players in cash and prizes and \$85.6 million to retailers in commissions and incentives for

Management's discussion and analysis (MD&A) can be found immediately following the independent auditors' report and provides a narrative introduction, overview and analysis of the basic statements. The Lottery's MD&A complements this letter of transmittal and should be read in conjunction with it.

- The Missouri State Auditor released an audit of the Missouri Lottery for the two years ended June 30, 2018 with an "Excellent" audit rating indicating the Lottery is very well managed and no resulted from the audit.
- Record proceeds to education.
- Record Scratchers sales.
- Record Pick 3 and Pick 4 sales.
- Record Mega Millions sales.
- Record Pull-Tab sales.
- Level status through the World Lottery Association's responsible gaming framework,
- Effective promotions and advertising.
- Minority- and women-owned business expenditure participation rates of 12.07 percent and 4.56 percent, respectively.

Economic Conditions and Outlook

The U.S. and Missouri economies expanded over the past year. While exhibiting positive growth, there are still some signs that economic growth is still uneven, especially in the import and export sectors related to the effects of tariffs and trade wars. Missouri exports upwards of \$1 billion of goods that could be subjected to tariffs by China and the EU, including agricultural products (meat, soybeans and corn), metals/ores, boats and vehicles.

During 2018, Missouri's Gross Domestic Product totaled over \$317.7 billion (current dollars) which was an increase of 4.5 percent from 2017. Missouri had the 22nd largest GDP among the states in 2018, and of the surrounding states, only Illinois (5th) and Tennessee (19th) have larger economies than Missouri. The U.S. GDP increased 5.2 percent during the same time period with all 50 states experiencing GDP growth.

The unemployment rate has remained below the pre-recession rate of 5 percent. At the end of year (FY) 2019, unemployment in Missouri was 3.3 percent, up from 3.0 percent at the start of the year. Unemployment rose slightly in November 2018 and again in March 2019 and then remained at that rate through the end of the year. Even though unemployment was up slightly, it is still near historical low unemployment rates set in

September 2000. The unemployment rates in Missouri generally follow the national unemployment trend, this year being an exception. The U.S. unemployment rate was 3.7 percent at the end of the year, down from

Consumer spending in the U.S., which makes up approximately 70 percent of the economy, grew at the annualized rate of 3.6 percent in 2018 with disposable income rising 5.0 percent, giving consumers modestly improved purchasing power. Consumer spending in Missouri grew at 3.4 percent in 2018 with disposable income rising 4.4 percent so Missourian's purchasing power did not keep pace with the U.S. overall.

Workforce Demographics	Missouri	U.S.
Average monthly employment in 2018	2,954,808	155,761,000
Average Unemployment Rate in 2018	3.2%	3.9%
Female	51%	50%
Male	49%	50%
Non-white	17%	23%
Hispanic or Latino	4%	15%
Ages 55 & older 23% 23% 23%	23%	23%
With disabilities (ages 18-64)	13%	10%
Below Poverty Levels (ages 18-64)	17%	14%
Language other than English (ages 18-64)	7%	23%
Associate degree or higher (Age 25+)	36%	39%

Missouri's per capita personal income rose to \$46,635 or 3.6 percent in 2018. Missouri had the fourth lowest cost of living index in the U.S. as of the second quarter of 2019 at 88.3 which improved from 88.9 during the quarter 2018 cost of living index. Missouri continues to be an affordable place to live.

In FY 2019, gasoline prices between \$1.83 and \$2.69 per gallon with the weekly average being \$2.37 per gallon, which is up from the FY 2018 average price per gallon of \$2.31— an increase of \$0.06 or 2.4 percent in the weekly average price per gallon.

The two of the three major U.S. stock markets experienced a year of un-steady growth in FY 2018. The Dow Jones (DJIA) ended the year at 26,600.0 which was up 8.8 percent. The S&P 500 ended the year at 2,941.8 which was up 6.6 percent, while the NASDAQ ended the year at 7,543.2 which was down 1.9 percent.

Missouri Lottery sales are likely to decline in FY 2020, due in part to the nearly 69 percent reduction of its advertising budget. The Lottery will focus its remaining advertising budget on our philanthropic branding emphasizing our mission of aiding public education in Missouri, supporting the big seasonal promotions and focusing on lower cost options such as social media and online video. There is also uncertainty around high multi-state jackpots which makes it to compute lottery sales and transfer projections as higher jackpots tend to drive sales for all Lottery products. Additional Pull-Tab dispensers overall, and at each location, should result in increased sales in this product line. Another major initiative includes the rollout of self-service vending machines to Walmart Supercenters. The Lottery continues to support our player base through community events, a re-tooled player loyalty program, mobile app, website and social media platforms.

Relevant Financial Policies

Budgetary Controls

The Lottery annually submits a request for appropriation through the budgetary process of the State of Missouri. Expenditures of the Lottery are subject to this annual appropriation process. Certain costs of operations for the Lottery are paid directly by the Missouri of Administration through appropriations administered by that agency. These costs include employee select capital improvements projects and certain facility-related costs.

Expenses associated with the operation of the Lottery are submitted for payment through the statewide accounting system. The Lottery maintains its own signature authority for payment of prizes through an imprest checking account. The Lottery has its own purchasing authority and has adopted the same rules and procedures as that of Administration, Division of Purchasing and Materials Management.

All from Lottery operations are designated for appropriation by the State solely for the institutions of public elementary, secondary and higher education. The Lottery makes estimated weekly transfers to the Lottery Proceeds Fund with a monthly transfer adjustment done based on calculated net income for the month.

Debt Administration

The Lottery's long-term liabilities are primarily payments owed to multi-year prize winners in the form of annual payments. These payments are fully funded by U.S. Treasury Strips held by the State of Missouri. The payments due Powerball and Mega Millions jackpot winners are funded through securities purchased and held by the Multi-State Lottery Association. As such, the Lottery does not record, and the statements do not a liability for future payments of Powerball and Mega Millions prizes funded by the Multi-State Lottery

Association. The statements also do not annuity contracts purchased from selected insurance companies to fund for-life prizes, as it is the intent of the Lottery that the insurance companies will make future installment payments directly to each prize winner.

Internal Control Environment

Management of the Lottery is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft or misappropriation. The internal control system is also designed to ensure that the accounting system provides accurate and timely information and that the Lottery is in compliance with applicable laws and regulations. Because the cost of a control should not exceed the to be derived, the objective is to provide reasonable, rather than absolute assurance, that the statements are free of any material misstatements.

To enhance controls over accounting procedures, the Lottery has segregated appropriate functions, where feasible, and added additional administrative reviews of areas not clearly segregated to ensure compliance with established control policies.

Section 313.315 of the Missouri Revised Statutes requires the State Auditor to conduct a biennial audit of all accounts and transactions of the Lottery, and such other special audits, as it may deem necessary. The Lottery is also required to employ an independent of accountants to conduct an annual audit of all accounts and transactions of the Lottery. This audit includes consideration of internal controls over reporting as they ts.

In addition, the Lottery has from time-to-time, employed the services of other external to conduct reviews of our security procedures for data processing and controls with game operations. The Lottery also created a full-time internal auditor position within the Division of Operations beginning May 2018.

Government Finance Officers Association Certificate of Achievement

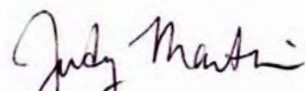
The Government Finance Association of the United States and Canada (GFOA) awarded a of Achievement for Excellence in Financial Reporting to the Missouri State Lottery Commission for its comprehensive annual report for the year ended June 30, 2018. This was the 19th consecutive year that the Lottery has achieved this prestigious award. In order to be awarded a of Achievement, a government must publish an easily readable and organized comprehensive annual report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A of Achievement is valid for a period of one year only. We believe that our current comprehensive annual report continues to meet the of Achievement Program's requirements, and we are submitting it to the GFOA

Acknowledgements

The preparation of this Comprehensive Annual Financial Report our commitment to maintain the highest standards of public accountability. We our commitment to continually improve our management and maintain the public's trust by exhibiting the highest ethical standards and uncompromising integrity. Publication of this report could not have been accomplished without the dedicated efforts of our employees, especially those within the Financial and Business Services Section. We would also like to recognize Executive Director May Scheve Reardon, Commission Chairperson Paul Kincaid, Vice Chair Michael Grewe, and Commissioners Robert (Bob) Gattermeir, John (Mike) Hannegan and Lance for their support, guidance and dedication in operating the Missouri Lottery Commission in a responsible and progressive manner.

Respectfully submitted,



Judy Martin, CPA

Missouri State Lottery Commission



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

Missouri State Lottery Commission

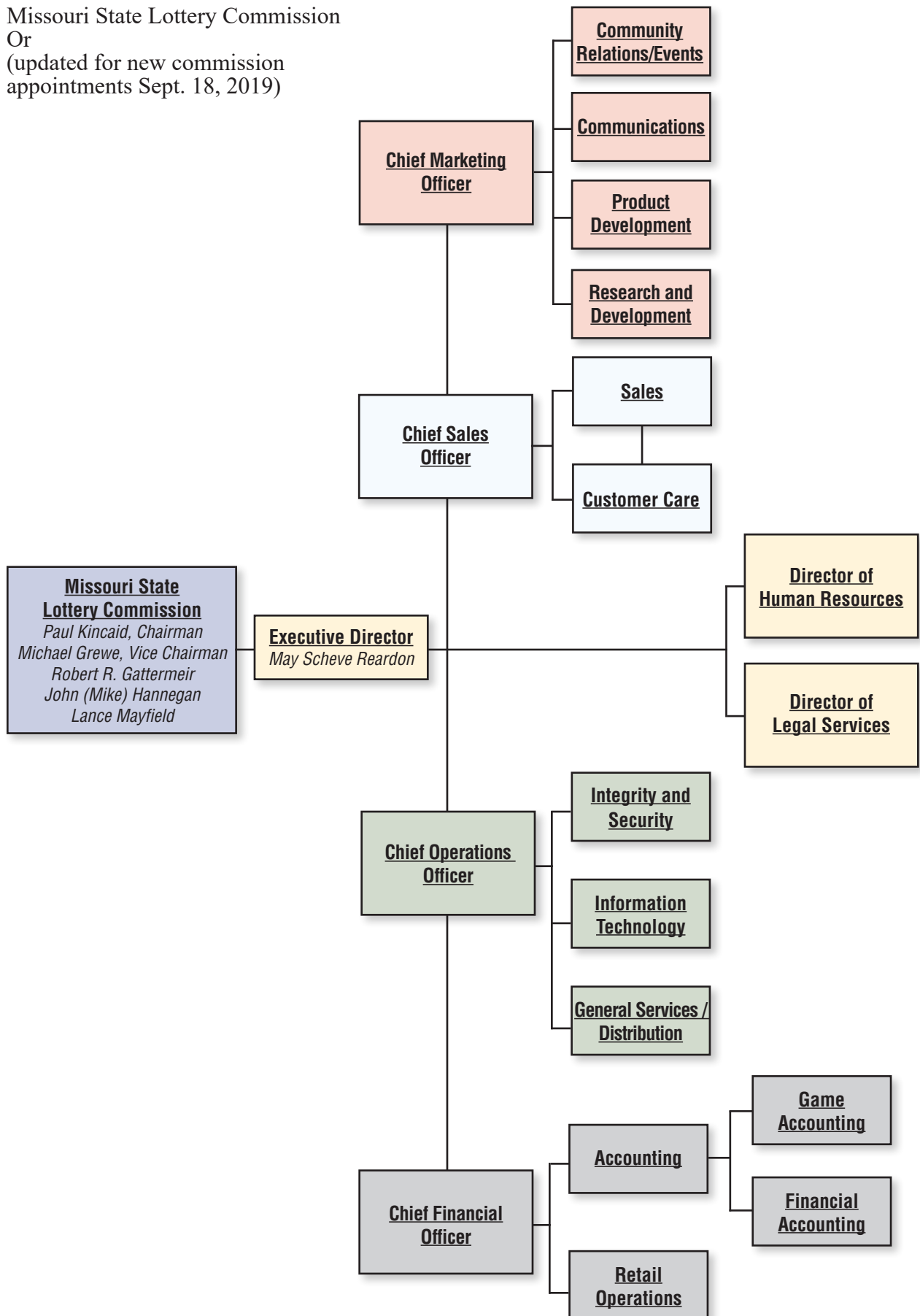
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morill

Executive Director/CEO

Missouri State Lottery Commission
Or
(updated for new commission
appointments Sept. 18, 2019)



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Financial Section



INDEPENDENT AUDITORS' REPORT

Missouri State Lottery Commission
Jefferson City, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of the Missouri State Lottery Commission, an enterprise fund of the state of Missouri, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Missouri State Lottery Commission as of June 30, 2019 and 2018, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Missouri State Lottery Commission and do not purport to, and do not, present fairly the financial position of the state of Missouri, as of June 30, 2019 and 2018, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension schedules and other post-employment benefits plan schedules on pages 14 to 22 and pages 44 to 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2019, on our consideration of the Missouri State Lottery Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Missouri State Lottery Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Missouri State Lottery Commission's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

St. Louis, Missouri
November 15, 2019

Missouri State Lottery Commission
(An Enterprise Fund of the State of Missouri)

Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2019 and 2018

The following Management's Discussion and Analysis (MD&A) provides an overview of the Missouri State Lottery Commission's (the Lottery) performance and activities for the years ended June 30, 2019 and 2018. The information contained in this MD&A should be considered in conjunction with the

Financial Statements Presented in This Report

The Lottery is a Type III division of the State of Missouri, created to generate revenues for public education through the operation of a lottery. The Lottery's activities are accounted for as an enterprise fund using the accrual basis of accounting, which is comparable to the method used by private business entities. The Lottery is an enterprise fund of the State of Missouri and is included in the State's Comprehensive Annual Financial Report. This report presents the activity of the Lottery as a single enterprise fund and does not include information related to any other state agency or fund.

This annual report includes three statements for the years ended June 30, 2019 and 2018. The Statements of Net Position provide information on the nature and amount of the Lottery's assets, liabilities, deferred and net position at the end of each year and provide a measure of the Lottery's economic resources. The Statements of Revenues, Expenses and Changes in Net Position the operating and non-operating revenues and expenses and the changes in net position for each year. The Statements of Cash Flows reconcile the changes in cash and cash equivalents with the activities of the Lottery for each year.

The Notes to the Basic Financial Statements provide additional detailed information to supplement the basis for reporting and nature of key assets and liabilities.

Financial Analysis
Summary of Net Position

	2019	2018	2017
Assets			
Current assets	\$121,274,927	\$115,762,307	\$91,637,822
Capital assets (net of accumulated depreciation)	2,292,937	2,594,509	2,969,888
Investments held for grand-prize winners at fair value - noncurrent	29,039,795	29,395,660	33,128,585
Total Assets	<u>152,607,659</u>	<u>147,752,476</u>	<u>127,736,295</u>
Deferred			
	5,732,517	6,200,567	5,947,105
Total Deferred	<u>5,732,517</u>	<u>6,200,567</u>	<u>5,947,105</u>
Liabilities			
Current liabilities	116,303,143	112,912,194	90,717,852
Long-term liabilities	57,713,526	56,361,547	55,534,607
Total Liabilities	<u>174,016,669</u>	<u>169,273,741</u>	<u>146,252,459</u>
Deferred			
	753,964	348,494	162,164
Total Deferred	<u>753,964</u>	<u>348,494</u>	<u>162,164</u>
Net Position			
Investment in capital assets	2,292,937	2,594,509	2,969,888
Unrestricted	(21,917,552)	(20,275,144)	(19,335,879)
Restricted	3,194,158	2,011,443	3,634,768
Total Net Position	<u>\$(16,430,457)</u>	<u>\$(15,669,192)</u>	<u>\$(12,731,223)</u>

Missouri State Lottery Commission
(An Enterprise Fund of the State of Missouri)

Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2019 and 2018

Current Assets

Current assets consist primarily of cash and cash equivalents, accounts receivable from retailers and the current portion (maturing within one year) of investments held in United States guaranteed marketable securities on behalf of past grand-prize winners. During year 2019, current assets increased by \$5,512,620 due to increases in cash and cash equivalents.

During year 2018, current assets increased by \$24,124,485 mainly due to increases in cash and cash equivalents.

Noncurrent Assets

Investments held for grand-prize winners represents the market value of the investments held in United States guaranteed marketable securities on behalf of past grand-prize winners that mature beyond one year. These investments were purchased to fund the annual payments for winners that were required to or elected to receive annuity payments and consist of United States Government-backed obligations of zero coupon bonds and stripped securities that equal the face amount of the bond or security upon maturity. Originally, winners of jackpots were required to receive annuity payments. Subsequently, winners were allowed to elect a lump-sum payment instead of a long-term annuity. Since this option has been available, the trend among winners has generally been to elect the lump-sum payment and, therefore, fewer purchases of securities have been required. In year 2019, this category decreased by \$3,732,925.

Capital assets consist of land, buildings, vehicles, computers and software, and other equipment and is reported net of all related accumulated depreciation. In year 2019, the level of capital assets decreased by \$301,572 due to the level of depreciation expenses exceeding the cost of .

In year 2018, the level of capital assets decreased by \$375,379 due to the level of depreciation expenses year.

Deferred Outflows

Deferred represent pension and other post-employment contributions made subsequent to the measurement date, differences between expected and actual experience related to pensions and other post-employment differences between projected and actual investment earnings on pension and other post-employment plan investments, and changes in pension and other post-employment plan assumptions. In year 2019, this category decreased by \$468,050 due mainly to differences between projected and actual earnings on pension plan investments.

In year 2018, this category increased by \$253,462 due mainly to differences between projected and actual earnings on pension plan investments.

Current Liabilities

Current liabilities consist primarily of accrued prize liabilities, other accrued expenses, amounts due the Lottery Proceeds Fund, and accounts payable to suppliers. In year 2019, current liabilities increased by \$3,390,949 which was mainly the result of an increase in accrued prize liabilities of \$8,423,776 offset by a decrease in the amounts due the Lottery Proceeds Fund of \$5,217,018.

In year 2018, current liabilities increased by \$22,194,342 which was mainly the result of an increase in amounts due the Lottery Proceeds Fund of \$26,380,731 offset by decreases in accrued prize liabilities and accounts payable.

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Long-Term Liabilities

Long-term liabilities include the long-term portion of amounts payable to grand-prize winners, the deferred portion of the amount due the Lottery Proceeds Fund, and net pension and OPEB liability. For year 2019, long-term liabilities increased by \$1,351,979 due to increases in the net pension liability and amounts due the Lottery Proceeds Fund offset by a decrease in grand-prize winner liabilities. The deferred amount due the Lottery Proceeds Fund represents the net book value (cost less accumulated depreciation) of capital assets acquired after September 1, 1988, and all amounts receivable from the Multi-State Lottery Association.

For year 2018, long-term liabilities increased by \$826,940 due to increases in the net pension and OPEB liabilities and amounts due the Lottery Proceeds Fund offset by a decrease in grand-prize winner liabilities.

Deferred Inflows

Deferred represent differences between expected and actual experience related to pensions and other post-employment differences between projected and actual investment earnings on pension and other post-employment plan investments, changes in proportion and differences between lottery contributions and proportionate share of contributions, and changes in pension and other post-employment plan assumptions. For year 2019, this category increased by \$405,470 due mainly to increases in differences between expected and actual experience related to pensions and OPEB and changes of OPEB assumptions.

For year 2018, this category increased by \$186,330 due mainly to increases in differences between expected and actual experience related to pensions.

Net Position

Net position invested in capital assets is unrestricted. Restricted net position is the cumulative result of increased fair market value of the United States guaranteed marketable securities held by the Lottery to pay prize winners on an annuity basis. For years 2019 and 2018, net position decreased by \$761,265 and \$2,937,969, respectively, due mainly to changes related to pensions and OPEB.

Changes in Net Position

	For the Year Ended June 30,		
	2019	2018	2017
Operating Revenues			
Ticket sales	\$1,466,028,703	\$1,400,216,223	\$1,342,665,109
Other operating revenues	173,686	141,620	122,247
Total Operating Revenues	<u>1,466,202,389</u>	<u>1,400,357,843</u>	<u>1,342,787,356</u>
Operating Expenses			
Direct costs			
Prize expense	1,015,091,349	939,479,882	932,097,045
Retailer commissions and incentives	85,644,851	82,609,174	78,489,752
Other direct costs	27,756,254	26,730,754	23,623,749
Total direct costs	1,128,492,454	1,048,819,810	1,034,210,546
Administrative expenses	39,610,006	38,007,277	36,297,356
Total Operating Expenses	<u>1,168,102,460</u>	<u>1,086,827,087</u>	<u>1,070,507,902</u>
Operating Income	<u>298,099,929</u>	<u>313,530,756</u>	<u>272,279,454</u>
Nonoperating Revenues (Expenses)			
Interest income	907,464	464,854	186,447
Gain (Loss) on sale of capital assets	65,709	31,570	(18,788)

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Unclaimed prizes	18,359,576	18,050,899	19,209,102
Transfers to the State of Missouri	(319,376,658)	(333,392,723)	(291,583,694)
Amortization of grand-prize winner liability	(1,232,986)	(1,309,933)	(1,370,943)
Net increase (decrease) in the fair value of investments held for grand-prize winners	<u>2,415,701</u>	<u>(313,392)</u>	<u>(1,098,544)</u>
Net Nonoperating Revenues (Expenses)	<u>(298,861,194)</u>	<u>(316,468,725)</u>	<u>(274,676,420)</u>
Changes in Net Position	<u>(761,265)</u>	<u>(2,937,969)</u>	<u>(2,396,966)</u>
Total Net Position, Beginning of Year	(15,669,192)	(12,731,223)	(3,361,907)
Prior Period Adjustment	-	-	(6,972,350)
Total Net Position, End of Year	<u>\$ (16,430,457)</u>	<u>\$ (15,669,192)</u>	<u>\$ (12,731,223)</u>

Changes in net position are the result of gain on investments. A prior period adjustment is in market yields, which increase or reduce the unrealized in year 2017 to establish the Lottery's net other

Because the Lottery is required to transfer its net income (excluding unrealized gain or loss on investments, amortization of grand-prize winner liability, and changes in net position related to pensions and OPEB) to the Lottery Proceeds Fund, the changes in net position do not the results of the Lottery's operating activities. The amounts reported as Transfers to the State of Missouri the Lottery's operating activities for the years. T hest in Lottery history.

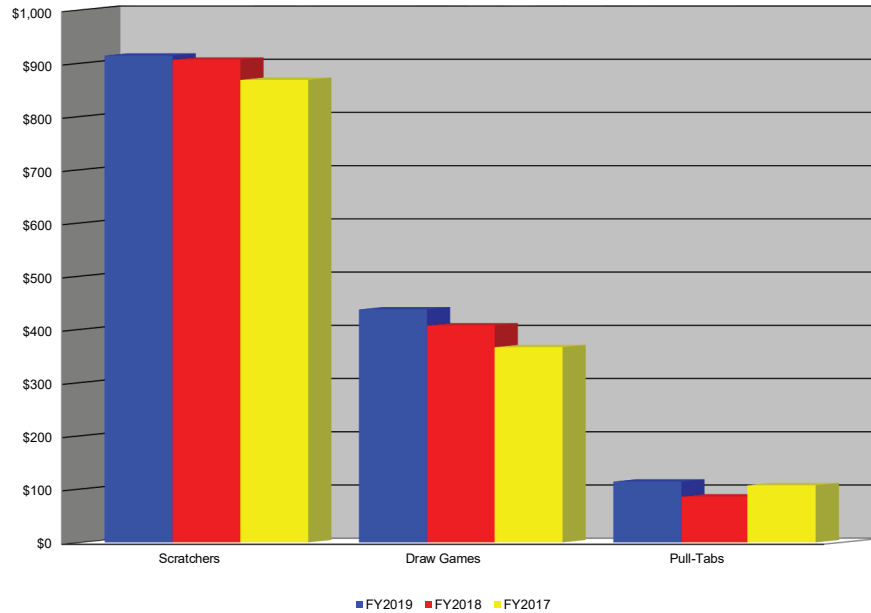
Operating Revenues

	For the Year Ended June 30,		
	2019	2018	2017
Sales by Game			
Scratchers	<u>\$914,449,548</u>	<u>\$906,750,562</u>	<u>\$868,860,724</u>
Draw Games			
Lotto	18,671,459	22,911,132	18,280,882
Pick 3	83,426,776	78,714,007	74,396,147
Powerball	97,546,934	103,895,726	94,886,472
Show Me Cash	31,721,903	31,710,747	29,834,262
Pick 4	54,674,668	52,354,221	48,279,354
Club Keno	57,329,788	57,363,460	56,746,940
Mega Millions	81,815,047	48,248,806	32,172,193
EZ Match-Show Me Cash	2,623,355	2,744,743	2,987,888
EZ Match-Lotto	602,855	626,752	241,215
EZ Match-Pick 3	482,942	499,714	534,136
EZ Match-Pick 4	391,317	426,778	448,894
Lucky for Life	<u>8,240,962</u>	<u>7,938,172</u>	<u>7,818,884</u>
Total Draw Games	<u>437,528,006</u>	<u>407,434,258</u>	<u>366,627,267</u>
Pull-Tabs	114,051,149	86,031,403	107,177,118
Other operating income	<u>173,686</u>	<u>141,620</u>	<u>122,247</u>
Total operating revenues	<u>\$1,466,202,389</u>	<u>\$1,400,357,843</u>	<u>\$1,342,787,356</u>

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Lottery Sales By Product
in millions



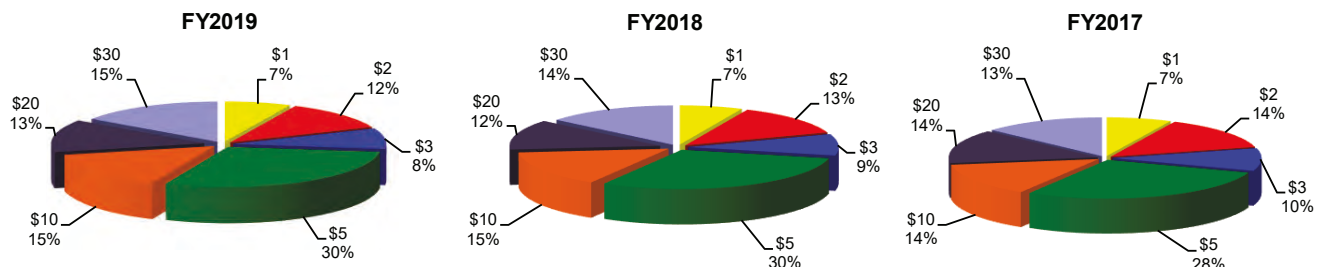
Ticket sales in year 2019 were ahead of year 2018 levels by \$65.8 million, or 4.7 percent. Scratchers sales increased by \$7.7 million, or .9 percent, while Draw Game sales increased by \$30.1 million, or 7.4 percent. Pull-Tab sales increased by \$28.0 million, or 32.6 percent, with an increase in the legislative cap on dispensers from 215 to 375 at fraternal organizations.

Ticket sales in year 2018 were ahead of year 2017 levels by \$57.6 million, or 4.3 percent. Scratchers sales increased by \$37.9 million, or 4.4 percent, while Draw Game sales increased by \$40.8 million, or 11.1 percent. Pull-Tab sales decreased by \$21.1 million, or 19.7 percent, due to removal of liquor-by-the-drink locations in March 2017 and a legislative cap on the number of dispensers (at fraternal locations only) of 215.

The increase in year 2019 Scratchers sales can be attributed to strong sales of the \$20 and \$30 Scratchers games. Scratchers \$1 sales showed a slight increase while \$5 and \$10 sales were relatively and \$2 and \$3 price points experienced declines compared to sales of the prev .

The increase in year 2018 Scratchers sales can be attributed to the launch of a second \$30 Scratchers game in late April 2018, which added \$27 million in the two months of sales, and strong \$5 and \$10 sales which increased \$26.3 million and \$14.3 million, respectively, over year 2017 levels. Scratchers \$1 sales were while \$2, \$3 and \$20 price points experienced declines compared .

Scratchers Ticket Sales By Price Point



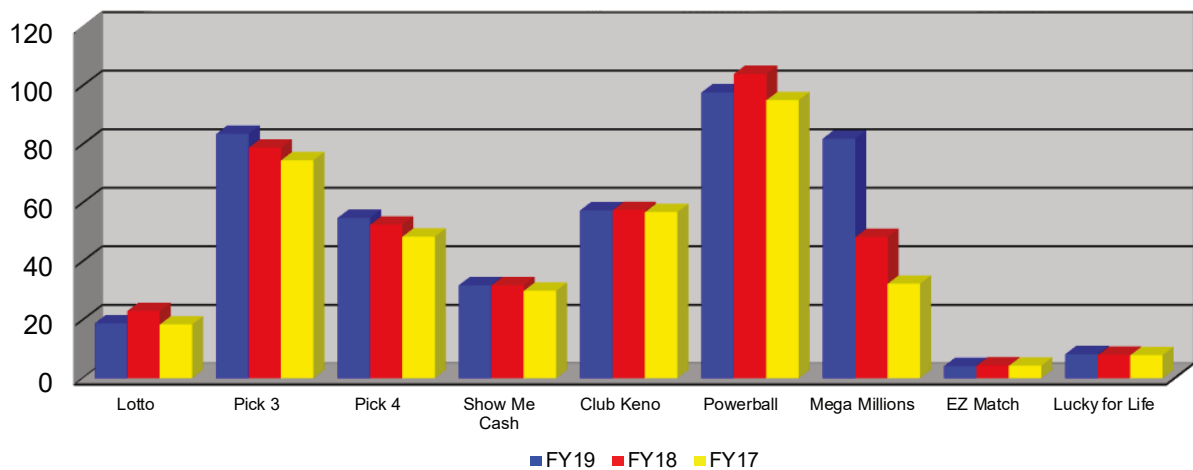
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Total Draw Game sales increased by \$30.1 million in year 2019. Mega Millions sales were responsible for most of the increase. Pick 3 and Pick 4 sales also had increases, which were offset by decreases in sales for Lotto, Powerball and the EZ Match games. Show Me Cash, Keno and Lucky for Life sales were relatively

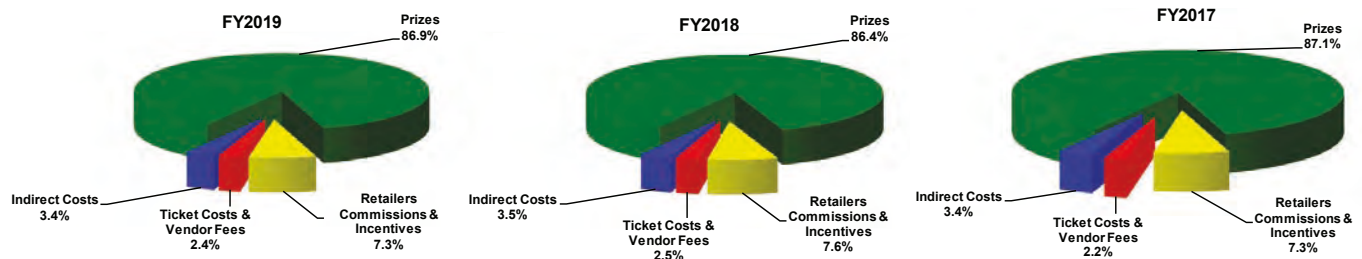
Total Draw Game sales increased by \$40.8 million in year 2018. Every Draw Game experienced an increase in sales from the previous year with the exception of three of the four EZ Match games. Mega Millions and Powerball made up most of the increase, with sales increases of \$16.1 million and \$9.0 million, respectively,

Draw Game Sales By Game
in millions



Operating Expenses

	For the Year Ended June 30,		
	2019	2018	2017
Direct Expenses			
Prizes	\$1,015,091,349	\$939,479,882	\$932,097,045
Retailer commissions and incentives	85,644,851	82,609,174	78,489,752
Tickets	8,807,120	10,100,442	7,651,916
Draw Game vendor fees	14,595,112	13,323,501	11,617,936
Pull-Tab vendor fees	4,354,022	3,306,811	4,353,897
Other Operating Expenses			
Advertising	15,999,997	15,999,996	15,999,987
W	12,987,593	12,192,088	11,359,488
Other general and administrative	9,618,079	8,746,472	7,925,065
Depreciation	1,004,337	1,068,721	1,012,816



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Direct Expenses

Most costs and expenses that comprise direct expenses are related to _____ games and, thus, vary proportionately with the change in sales of the related game. However, some variability does occur due to the nature of some expenses, and activities, events and programs, which may occur during any period of time. These expenses include prize expenses, retailer commissions and incentives, Scratchers ticket printing costs and Draw Game and Pull-Tab vendor fees.

Of the Lottery's total operating expenses of \$1,168.1 million in _____ year 2019, \$1,128.5 million, or 96.6 percent, are game-related, or direct, expenses. Of the Lottery's total operating expenses of \$1,086.8 million in _____ year 2018, \$1,048.8 million, or 96.5 percent, were game-related expenses. In _____ year 2017, direct expenses were \$1,034.2 million, or 96.6 percent, of the \$1,070.5 million total operating expenses.

Prize expense for _____ year 2019 increased by \$75.6 million, or 8.0 percent, while ticket sales increased by 4.7 percent. Prize expense for _____ year 2018 increased by approximately \$7.4 million, or .79 percent, while total ticket sales increased by 4.3 percent. The variance between the percentage increase in prize expense and sales _____ the effects of the increased prize structure of the Scratchers and Pull-Tab products, while the random selection of winning numbers may result in deviations from expected results in a short-term period for Draw Game products.

Retailer commissions and incentives in _____ year 2019 increased by \$3 million, or 3.7 percent. Retailer commissions and incentives in _____ year 2018 increased by \$4.1 million, or 5.2 percent. These categories and results more closely follow the sales trends than prize expense. Variations will occur due to additional promotional activity to promote selected games and the number of jackpots won during the year.

Scratchers ticket printing expenses decreased in _____ year 2019 by \$1.3 million, or 12.8 percent, compared to an increase in _____ year 2018 of \$2.4 million, or 32.0 percent. Comparing _____ year 2019 to _____ year 2017, Scratchers ticket sales increased 5.2 percent while printing expenses increased 15.1 percent. The large increase in printing expenses compared to sales increases over the two years can be attributed to printing costs associated with the second \$30 Scratchers ticket and expiration of a _____ rebate and royalty-free usage of licensed properties associated with a new and improved loyalty program and renewal of the primary printing contract.

Draw Game vendor fees increased by \$1.3 million, or 9.5%, in direct correlation to the \$30.1 million increase in Draw Game sales. Similarly in _____ year 2018, Draw Game vendor fees increased by \$1.7 million, or 14.7 percent, directly correlated to the \$40.8 million increase in Draw Game sales.

Pull-Tab vendor fees increased by \$1.0 million in _____ year 2019, or 31.7 percent, with an increase in the cap of dispensers from 215 to 375 at fraternal organizations. Pull-Tab vendor fees decreased by \$1.0 million, or 24.05 percent, in _____ year 2018 due to removal of liquor-by-the-drink locations in March 2017 and a cap on the number of dispensers (at fraternal locations only) of 215. Annual variances correlate directly with _____ in sales.

Other Operating Expenses

Other operating expenses include advertising, personal services, fringe _____ marketing and promotional expenses, utilities and facility costs, communication services and other administrative costs. The Lottery is subject to the budgetary and appropriation process of the State of Missouri. Management develops budgets for these expenses, within the total amounts appropriated by the State, based upon current economic conditions, business plans and market conditions, with actual results continuously monitored to ensure that overall business objectives are met in the most effective and _____ manner. In _____ year 2019, other operating expenses

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increased by \$1.6 million, or 4.22 percent, due to increased GASB 68 pension expense and increased information technology outsourcing, consulting and computer software costs.

In year 2018, other operating expenses increased by \$1.7 million, or 4.71 percent, due to increased GASB 68 pension expense and GASB 75 OPEB expense.

The level of depreciation expenses is generally a function of capital asset acquisition activity. A portion of the Lottery's vehicle has been replaced during the last three years, as well as necessary upgrades, replacements and additions of computer equipment and related items, resulting in fairly depreciation expenses in recent years.

Nonoperating Revenues (Expenses)

	For the Year Ended June 30,		
	2019	2018	2017
Interest	\$907,464	\$464,854	\$186,447
Unclaimed prizes	18,359,576	18,050,899	19,209,102
Gain (Loss) on sale of capital assets	65,709	31,570	(18,788)
Net increase (decrease) in the fair value of investments held for grand-prize winners	2,415,701	(313,392)	(1,098,544)
Amortization of grand-prize winner liability	(1,232,986)	(1,309,933)	(1,370,943)
Transfers to State of Missouri	(319,376,658)	(333,392,723)	(291,583,694)

The Lottery earns interest on its share of the common cash pool with the State Treasurer's as well as interest on an imprest fund account utilized to pay prizes. Interest is also earned on funds receivable from the Multi-State Lottery Association (MUSL). The increases in interest earnings for year 2019 over year 2018 and for nces coupled with higher interest rates.

The Lottery retains prize money if a claim for the prize is not made within a 180-day claim period. In year 2019, the level of unclaimed prizes increased by \$.3 million over year 2018. In year 2018, the level of unclaimed prizes decreased by \$1.2 million over year 2017. This line item considerably from year to year, depending on the timing of Scratchers game closings and the unpredictability of prizes going unclaimed.

The net increase (decrease) in investments held for grand-prize winners represents the net market value change. Amortization of the grand-prize winner liability represents the accretion of interest to the securities held to maturity to fund the grand-prize winner payments.

The variances in the gain or loss from the disposal of capital assets generally the effects of the number of vehicles that were surplusd during each year. In year 2019, thirteen vehicles were surplusd and sold at surplus property. In year 2018, vehicles were surplusd and sold at surplus property. In year 2017, nine vehicles were surplusd and sold at surplus property which was offset by a loss associated with disposition of computer equipment.

All net proceeds are transferred to the Lottery Proceeds Fund for Education. Net proceeds for year 2019 decreased \$14.0 million, or 4.20 percent, due to increased prize expense coupled with a proportionally lower increase in sales. Net proceeds for year 2018 increased \$41.8 million, or 14.34 percent, due to increased sales coupled with a proportionally lower increase in prize expense. The Governor's and the Legislature determine where these funds will be expended within the state's public institutions of elementary, secondary and higher education.

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Capital Assets and Long-Term Debt

The Lottery's capital assets consist of land, buildings, vehicles, computers and software, and other equipment. Capital assets are not a part of the Lottery's total assets. Additional detailed information on capital

The Lottery has no long-term liabilities other than the long-term annuitized payments to Lottery winners, deferred transfers to the State of Missouri, and net pension and other post-employment liabilities recorded pursuant to GASBs 68 and 75, respectively. Additional detailed information on long-term liabilities may be found in Note 1

Contacting the Lottery's Financial Management

This management discussion and analysis report is designed to provide Missouri citizens, government players, retailers and other interested parties reliable information and an explanation of the Lottery's activities for the years ended June 30, 2019 and 2018. If you have questions about this report or need additional information, contact the Missouri State Lottery Commission, Financial Accounting Section, P.O. Box 1603, Jefferson City, Missouri 65109-1603.

Missouri State Lottery Commission
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Statements of Net Position As of June 30, 2019 and 2018

	2019	2018
Current Assets		
Cash and cash equivalents	\$ 65,318,927	\$ 59,063,698
Investments held for grand-prize winners	3,404,296	3,402,187
Accounts receivable, net of allowances for returns	52,302,693	52,996,747
Other assets	249,011	299,675
Total current assets	<u>121,274,927</u>	<u>115,762,307</u>
Noncurrent Assets		
Capital assets		
Capital assets not being depreciated	352,973	600,885
Capital assets	13,465,755	12,884,399
Accumulated depreciation	<u>(11,525,791)</u>	<u>(10,890,775)</u>
	2,292,937	2,594,509
Investments held for grand-prize winners	29,039,795	29,395,660
Total noncurrent assets	<u>31,332,732</u>	<u>31,990,169</u>
Total assets	<u>152,607,659</u>	<u>147,752,476</u>
Deferred		
	5,374,442	5,917,437
	<u>358,075</u>	<u>283,130</u>
T	<u>5,732,517</u>	<u>6,200,567</u>
Current Liabilities		
Accounts payable	406,173	547,820
Due to Lottery Proceeds Fund	22,732,931	27,949,949
Accrued prize liabilities	84,222,516	75,798,740
Grand-prize winner liabilities	3,474,000	3,434,000
Other accrued liabilities	<u>5,467,523</u>	<u>5,181,685</u>
Total current liabilities	<u>116,303,143</u>	<u>112,912,194</u>
Long-term Liabilities		
Due to Lottery Proceeds Fund	5,126,129	3,532,455
Grand-prize winner liabilities	25,775,933	27,352,404
Net Pension Liability	19,388,641	18,003,639
Net OPEB Liability	<u>7,422,823</u>	<u>7,473,049</u>
Total long-term liabilities	<u>57,713,526</u>	<u>56,361,547</u>
Total liabilities	<u>174,016,669</u>	<u>169,273,741</u>
Deferred		
	453,590	334,477
	<u>300,374</u>	<u>14,017</u>
T	<u>753,964</u>	<u>348,494</u>
Net Position		
Investment in capital assets	2,292,937	2,594,509
Unrestricted	(21,917,552)	(20,275,144)
Restricted for the unrealized gain/loss on investments held for grand-prize winners	<u>3,194,158</u>	<u>2,011,443</u>
Total net position	<u>\$ (16,430,457)</u>	<u>\$ (15,669,192)</u>

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Statements of Revenues, Expenses and Changes In Net Position
For The Years Ended June 30, 2019 and 2018

	2019	2018
Operating Revenues		
Scratchers ticket sales	\$ 914,449,548	\$ 906,750,562
Draw Game ticket sales	437,528,006	407,434,258
Pull-Tab ticket sales	114,051,149	86,031,403
Total sales	1,466,028,703	1,400,216,223
Other	173,686	141,620
Total operating revenues	1,466,202,389	1,400,357,843
Operating Expenses		
Scratchers prizes	666,811,269	627,758,243
Draw Game prizes	245,716,968	234,328,837
Pull-Tab prizes	102,563,112	77,392,802
Scratchers retailer commissions and incentives	58,564,696	57,743,804
Draw Game retailer commissions and incentives	24,782,552	23,137,954
Pull-Tab retailer commissions and incentives	2,297,603	1,727,416
Cost of tickets sold	27,756,254	26,730,754
Depreciation	1,004,337	1,068,721
Advertising	15,999,997	15,999,996
W	12,987,593	12,192,088
Other general and administrative	9,618,079	8,746,472
Total operating expenses	1,168,102,460	1,086,827,087
Operating income	298,099,929	313,530,756
Nonoperating Revenues (Expenses)		
Interest income	907,464	464,854
Unclaimed prizes	18,359,576	18,050,899
Gain (Loss) on sale of capital assets	65,709	31,570
Net increase (decrease) in the fair value of investments held for grand-prize winners	2,415,701	(313,392)
Amortization of grand-prize winner liability	(1,232,986)	(1,309,933)
Transfers to State of Missouri Lottery Proceeds Fund	(319,376,658)	(333,392,723)
Total nonoperating revenues (expenses)	(298,861,194)	(316,468,725)
Changes in net position	(761,265)	(2,937,969)
Total Net Position, Beginning of Year	\$ (15,669,192)	\$ (12,731,223)
Total Net Position, End of Year	\$ (16,430,457)	\$ (15,669,192)

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Statements of Cash Flows
For The Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows From Operating Activities		
Cash received from retailers and others	\$ 1,467,054,208	\$ 1,397,482,207
Cash paid for prizes	(991,741,997)	(927,338,405)
Cash paid for retailer commissions	(85,472,309)	(82,436,288)
Cash paid for employee services	(10,764,337)	(10,215,451)
Cash paid for other expenses	(53,524,744)	(53,102,213)
Net cash provided by operating activities	<u>325,550,821</u>	<u>324,389,850</u>
Cash Flows From Noncapital Financing Activities		
Transfers to State of Missouri	<u>(323,000,000)</u>	<u>(306,072,097)</u>
Cash Flows From Capital and Related Financing Activities		
Purchases of capital assets	(702,765)	(693,846)
Proceeds from sale of capital assets	65,709	32,073
	<u>(637,056)</u>	<u>(661,773)</u>
Cash Flows From Investing Activities		
Proceeds from maturity of investments	3,434,000	3,434,000
Interest received	907,464	464,854
Net cash provided by investing activities	<u>4,341,464</u>	<u>3,898,854</u>
Net Increase in Cash and Cash Equivalents	6,255,229	21,554,834
Cash and Cash Equivalents, Beginning of Year	<u>59,063,698</u>	<u>37,508,864</u>
Cash and Cash Equivalents, End of Year	<u>\$ 65,318,927</u>	<u>\$ 59,063,698</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 298,099,929	\$ 313,530,756
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,004,337	1,068,721
Noncash pension expense adjustment	2,208,296	1,943,980
Unclaimed prizes	18,359,576	18,050,899
Payments to grand-prize winners	(3,434,000)	(3,434,000)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable, net	694,054	(2,524,674)
(Increase) decrease in other receivables	50,664	(59,443)
Increase (decrease) in accounts payable and other accrued liabilities	144,191	(1,710,967)
Increase (decrease) in accrued prize liabilities	8,423,774	(2,475,422)
Net cash provided by operating activities	<u>\$ 325,550,821</u>	<u>\$ 324,389,850</u>
Noncash Activities		
Net increase (decrease) in the fair value of investments held for grand-prize winners	\$ 2,415,701	\$ (313,392)
Amortization of grand-prize winner liability	\$ 1,232,986	\$ 1,309,933

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1. Summary of Significant Accounting Policies

The Missouri State Lottery Commission (the Lottery) was created by the passage of a constitutional amendment on November 6, 1984 by the citizens of the State of Missouri. The Lottery is a Type III division assigned to the Missouri Department of Revenue as _____ in Section 313.210 of the Revised Statutes of Missouri. The Department of Revenue has no control, supervision or authority over the actions or decisions of the Lottery. The Lottery's Commission consists of _____ members appointed by the Governor with the advice and consent of the Senate. The day-to-day operations are administered by the executive director and administrative staff as designated by the Commission.

For _____ reporting purposes, the Lottery is considered an enterprise fund of the State of Missouri. Additional disclosures related to Missouri's self-insurance funds, unemployment insurance compensation, state pension plans, post-employment _____ and workers' compensation _____ are included in the State of Missouri's Comprehensive Annual Financial Report.

These _____ statements include all Lottery activity and do not include any activity related to any other state agency or fund.

Basis of Presentation

The Lottery is accounted for as a proprietary, business-type activity enterprise fund. The _____ statements of the Lottery have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and _____ reporting principles. Enterprise funds are used to account for activities that are _____ and operated in a manner similar to private business enterprises where the costs of providing goods and services to the general public on a continuing basis _____ ges or where the periodic determination of net income is appropriate.

Basis of Accounting

The term "basis of accounting" refers to when revenues, expenses and the related assets and liabilities are recognized in the accounts and reported in the _____ statements. The term "measurement focus" refers to what is being measured. The _____ statements are prepared on the accrual basis of accounting and on an economic resources measurement focus in accordance with GAAP.

The Lottery distinguishes operating revenues and expenses from nonoperating items. The principal operating revenues of the Lottery primarily consist of sales from Scratchers, Draw Game and Pull-Tab tickets. Operating expenses primarily consist of payments to prize winners, commissions to retailer agents, payments to vendors and employees, and depreciation. All revenues and expenses not meeting this _____ are reported as nonoperating revenues and expenses.

Revenue Recognition

Sales of Scratchers tickets are made to licensed retail sales outlets with the right of return. Ticket sales are recognized upon the sale of tickets to licensed retailers and are valued at the sale price to the player. Allowances of approximately \$2,043,734 and \$2,209,437 at June 30, 2019 and 2018, respectively, have been established for estimated tickets to be returned by retailers.

Sales of Draw Game lottery tickets are generated by the semiweekly Lotto, Powerball, Lucky for Life, and Mega Millions games, and the daily Club Keno, Show Me Cash, Pick 4 and Pick 3 games. Lotto, Show Me Cash, Pick 4 and Pick 3 games have the EZ Match option in which players instantly win the prize amount printed next to the matched EZ Match numbers. Sales of Draw Game lottery tickets are made through licensed retail sales outlets via Draw Game terminals maintained by the retailers. Revenue is recognized for Draw Games when tickets are

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1. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

sold to players and the related draw occurs. Unearned revenues from these sales represent tickets sold for future prize drawings. Unearned revenues were \$631,026 and \$523,923 as of June 30, 2019 and 2018 and are included in other accrued liabilities.

Sales of the new Pull-Tabs product began October 2013. Sales are generated daily through Pull-Tab dispensers at licensed retail sales outlets. Revenue is recognized for Pull-Tabs when tickets are dispensed to players.

Operating revenues are presented net of sales returns, cancellations and promotional tickets of \$51,628,526 and \$47,679,047 for the years ended June 30, 2019 and 2018, respectively.

Prizes

Expenses for Draw Game lottery ticket prizes are recorded based on a minimum of 45 percent of Draw Game lottery ticket sales. This amount is recognized and accrued as prize liability. Actual prizes paid are treated as a reduction of the prize liability.

Lotto grand-prize winners have the choice of receiving their prize in 25 annual installments or a portion of the prize in one lump-sum payment. Powerball and Mega Millions grand-prize winners have the choice of receiving their prize over 29 years (30 annual graduated installments) or a portion of the prize in one lump-sum payment. Lucky for Life top and second prize winners have the choice of receiving their prize annually for life (minimum of 20 years) or in one lump-sum payment.

Expenses for Scratchers ticket prizes are recorded based upon the unique, predetermined prize structure for each game and are accrued as tickets are sold to the retailer.

Pull-Tab prizes are recorded at actual prizes paid.

Unclaimed Prizes

State statutes require that unclaimed prize monies be retained by the Lottery for the person entitled thereto for 180 days after the time the prize was awarded. If no claim is made for the prize within such time, the prize money reverts to the Lottery. Effective July 1, 2000, at the directive of the State of Missouri, the Lottery transfers to the Lottery Proceeds Fund all prizes that remain unclaimed. During the years ended June 30, 2019 and 2018, unclaimed prizes in the amount of approximately \$18,360,000 and \$18,051,000 were transferred to the Lottery Proceeds Fund. For the years ended June 30, 2019 and 2018, this amount has been included as nonoperating revenue on the statements of revenues, expenses and changes in net position with a corresponding amount included as a transfer to the State of Missouri.

Cash and Cash Equivalents

For purposes of the statements of cash and cash equivalents consist of cash in banks, repurchase agreements and funds on deposit with the State Treasurer. The Lottery considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments Held for Grand-Prize Winners

Since March 1990, the Lottery has purchased U.S. Treasury Zero Coupon Bonds to fund future payments under grand-prize winner prize claims. The maturities of these bonds approximate deferred grand-prize annuity installment amounts and due dates. The securities purchased are held in the Lottery's name in safekeeping by the Federal Reserve Bank in a separate account. The investments in these securities are carried at fair value. The Lottery categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are
able inputs.

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1. Summary of Significant Accounting Policies (continued)

Retailer Fees

Retailers are charged a fee when licensed to sell lottery tickets. Additionally, retailers pay an annual fee in lieu of obtaining an insurance bond. Such fees are used to offset uncollectible accounts receivable from retailers. The Lottery has not established an allowance for bad debt as this amount has been determined to be immaterial to the accounts receivable balance.

Capital Assets

Property and equipment greater than \$1,000 are carried at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated lives of the related assets, which range from three to and nineteen years for buildings.

When assets are retired or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in nonoperating revenues and expenses for the period.

Net Position

Restricted net position represents the unrealized gains or losses on investments held for grand-prize winners. Certain investments are reported at fair value with gains and losses in the statement of revenues, expenses and changes in net position. As required by the Missouri Constitution and state statutes, the Lottery uses investments only to fund its annuity prize obligations and intends to hold the investments to maturity. Market gains or losses represent temporary and are not recognized in the calculation of the amounts due to the Lottery Proceeds Fund.

Use of Estimates

The preparation of statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Due to Lottery Proceeds Fund

All income before transfers of the Lottery, except for the net increase in the fair value of investments held for grand-prize winners, amortization of grand-prize winner liabilities and the change in net position related to pensions and other post-employment (calculated using a one-year lag), as described in the accompanying statements of revenues, expenses and changes in net position, accrues to the of the State of Missouri. Transfers are made to the Lottery Proceeds Fund, which shall be appropriated by the State solely for the institutions of public elementary, secondary and higher education.

The Lottery makes estimated weekly transfers to the Lottery Proceeds Fund with a monthly transfer adjustment done based on calculated net income before transfers. A portion of the liability to the Lottery Proceeds Fund, equal to the net book value of capital additions after September 1, 1988, and all amounts receivable from the Multi-State Lottery Association, is shown as a long-term liability and is not subject to current transfers.

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1. Summary of Significant Accounting Policies (continued)

Compensated Absences

Under the terms of the Lottery's personnel policy, employees are granted vacation and sick leave in varying amounts, based upon length of service. In the event of termination or separation, an employee is generally paid for accumulated vacation up to 240 hours if in service for less than ten years; 288 hours for service between ten and years; and 336 hours if service exceeds years. Accordingly, it is the Lottery's policy to record vacation pay as an expense as it is earned. The amount of earned but unused accumulated vacation is included as an accrued liability in the accompanying statements. Retiring employees receive an additional month of credited service for every twenty-one days of accumulated sick leave on the date of termination. Credited service is used to calculate retirement administered by the Missouri State Employees Retirement System. The amount of earned but unused sick leave has no material effect on the Lottery.

Risk Management

The Lottery's risk management activities for workers' compensation and unemployment are recorded in the Workers' Compensation Fund and the Employment Security Fund, funds of the State of Missouri. The Lottery reimburses these funds for actual disbursements made on the Lottery's account.

Employees are offered various health insurance coverage programs administered by the Missouri Consolidated Health Care Plan (MCHCP). The Lottery contributes a monthly payment for each covered employee to MCHCP as appropriated by the General Assembly of the State of Missouri.

The Lottery's major assets including data processing equipment, buildings and business interruption are Administration - Risk Management.

There were no reductions in insurance coverage from the prior year. Insurance settlements did not exceed insurance coverage in the past three years.

Budgetary Authority

The Lottery annually submits a request for appropriation through the budgetary process of the State of Missouri. All expenses of the Lottery are subject to the State of Missouri appropriation process.

Marketing, Advertising and Promotion

The Lottery expenses the costs of marketing, advertising and promotions as they are incurred. In addition to \$16 million spent for advertising in years 2019 and 2018, the Lottery spent \$2.0 million and \$2.0 million on sponsorships and promotional supplies in years ended June 30, 2019 and 2018, respectively.

Pension Plan and Other Post-Employment Benefits Plan (OPEB)

For purposes of measuring the net pension and OPEB liabilities, deferred and of resources related to pensions and OPEB, and pension and OPEB expense, information about the net position and additions to/deductions from the net position have been determined on the same basis as they are reported by the plans. For this purpose, payments (including refunds of employee contributions) are recognized when due and payable in accordance with the terms. Investments are reported at fair value.

Subsequent Events

The Lottery has performed a review of events subsequent to the statement of net position date through

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Notes To The Basic Financial Statements
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2. Statutory Requirements

Missouri statutes provide that a minimum of 45 percent of the money received from the sale of lottery tickets shall be allocated to prizes. The costs of operating the Lottery, including all commissions to retailers, promotional costs, and all other administrative expenditures, are appropriated by the General Assembly of the State of Missouri.

The Lottery receives certain services for no charge from other Missouri state government agencies. Tax clearance and driver's license checks are provided by the Department of Revenue. The of Administration provides services related to employee and certain capital improvements, procurements, and facilities-related items.

3. Cash and Cash Equivalents

Cash, other than petty cash and the imprest fund, is part of the common cash pool in the State Treasury. The State of Missouri invests such cash in excess of what is necessary to meet current obligations. The fair value in the common cash pool is the same as the value of the pool shares. At June 30, 2019 and 2018, the Lottery's share in the State's common cash pool was \$55,707,551 and \$44,127,448, respectively. At June 30, 2019 and 2018, the book balance of the imprest fund was \$9,600,320 and \$14,923,673, respectively, and the bank balance was \$11,126,391 and \$15,521,259, respectively.

Collateral is required by state statutes for demand deposits and of deposit. The fair value of collateral must equal 100 percent of deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are governed by state statute and include U.S. government and U.S. agency bonds and securities, general obligation bonds of any of the states, general obligation bonds of any Missouri county and certain cities and special districts, and revenue bonds of certain Missouri agencies. Written custodial agreements are required which provide, among other things, that the collateral be held separate from the assets of the custodial bank.

Custodial credit risk is the risk that, in the event of a bank failure, the Lottery's deposits may not be returned to it. The Lottery does not have a deposit policy for custodial credit risk. The Lottery's imprest fund was fully collateralized by FDIC insurance and pledged collateral at June 30, 2019 and 2018. Because the Lottery's share of the State's Treasury is a pooled investment, the balance of this account is not subject to custodial credit risk.

4. Investments Held For Grand-Prize Winners

As provided for by Article III, Section 39(b) of the Missouri Constitution, the Lottery purchases United States Treasury Zero Coupon Bonds for the purpose of funding future grand-prize winner prize claims. The recurring fair value measurements of these investments at June 30, 2019 and 2018 using quoted market prices (Level 1 inputs) was \$32,444,091 and \$32,797,847, respectively. The maturity value of securities held at June 30, 2019 and 2018 was \$37,040,000 and \$39,514,000, respectively.

At June 30, 2019 and 2018, the Lottery had the following investments:

Investment Type	Fair Value	Investment Maturities (In Years)			
		Less Than 1	1-5	6-10	More Than 10
United States Treasury					
Zero Coupon Bonds					
June 30, 2019	\$32,444,091	\$3,404,296	\$12,699,689	\$10,358,874	\$5,981,232
June 30, 2018	\$32,797,847	\$3,402,187	\$12,516,665	\$10,601,151	\$6,277,844

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Notes To The Basic Financial Statements
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4. Investments Held For Grand-Prize Winners (continued)

Investments in prize annuities are subject to changes in fair value due to interest rate risk. However, to satisfy the annual installment obligations to prize winners, these bonds are held to maturity. The fair value at maturity is the face value of the bonds, regardless of the changes in value during the time that the investments are outstanding.

5. Draw Game Ticket Sales

Draw Game ticket sales for the year ended June 30th, consist of the following:

	2019	2018
Lotto	\$ 18,671,459	\$ 22,911,132
Pick 3	83,426,776	78,714,007
Powerball	97,546,934	103,895,726
Show Me Cash	31,721,903	31,710,747
Pick 4	54,674,668	52,354,221
Club Keno	57,329,788	57,363,460
Mega Millions	81,815,047	48,248,806
EZ Match – Show Me Cash	2,623,355	2,744,743
EZ Match – Lotto	602,855	626,752
EZ Match – Pick 3	482,942	499,714
EZ Match – Pick 4	391,317	426,778
Lucky For Life	8,240,962	7,938,172
	<u>\$ 437,528,006</u>	<u>\$ 407,434,258</u>

6. Capital Assets

The changes in capital assets for the year ended June 30th, consist of the following:

	June 30, 2018	Increases	Decreases	June 30, 2019
Capital assets not being depreciated				
Land	\$ 352,973	\$ -	\$ -	\$ 352,973
Construction in progress	247,912	-	(247,912)	-
Total capital assets not being depreciated	<u>600,885</u>	<u>-</u>	<u>(247,912)</u>	<u>352,973</u>
Capital assets being depreciated				
Buildings	5,270,313	-	-	5,270,313
Computers and software	4,132,712	258,651	(43,254)	4,348,109
Equipment	1,821,845	468,474	(52,949)	2,237,370
Automobiles	1,659,529	223,552	(273,118)	1,609,963
Total capital assets being depreciated	<u>12,884,399</u>	<u>950,677</u>	<u>(369,321)</u>	<u>13,465,755</u>
Less accumulated depreciation for				
Buildings	(4,833,937)	(84,687)	-	(4,918,624)
Computers and software	(3,205,431)	(620,991)	52,350	(3,774,072)
Equipment	(1,484,986)	(128,874)	43,853	(1,570,007)
Automobiles	(1,366,421)	(169,785)	273,118	(1,263,088)
Total accumulated depreciation	<u>(10,890,775)</u>	<u>\$ (1,004,337)</u>	<u>\$369,321</u>	<u>(11,525,791)</u>
Total capital assets being depreciated, net	<u>1,993,624</u>			<u>1,939,964</u>
Capital assets, net	<u>\$ 2,594,509</u>			<u>\$ 2,292,937</u>

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6. Capital Assets (continued)

	June 30, 2017	Increases	Decreases	June 30, 2018
Capital assets not being depreciated				
Land	\$ 352,973	\$ -	\$ -	\$ 352,973
Construction in progress	6,606	247,912	(6,606)	247,912
Total capital assets not being depreciated	<u>359,579</u>	<u>247,912</u>	<u>(6,606)</u>	<u>600,885</u>
Capital assets being depreciated				
Buildings	5,270,313	-	-	5,270,313
Computers and software	4,237,165	263,508	(367,961)	4,132,712
Equipment	1,834,113	9,529	(21,797)	1,821,845
Automobiles	1,586,354	179,503	(106,328)	1,659,529
Total capital assets being depreciated	<u>12,927,945</u>	<u>452,540</u>	<u>(496,086)</u>	<u>12,884,399</u>
Less accumulated depreciation for				
Buildings	(4,725,712)	(108,225)	-	(4,833,937)
Computers and software	(2,894,633)	(678,255)	367,457	(3,205,431)
Equipment	(1,402,340)	(104,443)	21,797	(1,484,986)
Automobiles	(1,294,951)	(177,798)	106,328	(1,366,421)
Total accumulated depreciation	<u>(10,317,636)</u>	<u>\$ (1,068,721)</u>	<u>\$ 495,582</u>	<u>(10,890,775)</u>
Total capital assets being depreciated, net	<u>2,610,309</u>			<u>1,993,624</u>
Capital assets, net	<u>\$ 2,969,888</u>			<u>\$ 2,594,509</u>

7. Pension Plan

Plan Description

The Lottery participates in the Missouri State Employees' Plan (MSEP) (the Plan), a cost-sharing, multiple-employer public employees' retirement plan administered by Missouri State Employees' Retirement System (MOSERS). Chapter 104.320 of the Revised Statutes of Missouri grants the authority to establish and amend terms to the MOSERS Board of Trustees. Substantially all full-time employees of the Lottery are covered by the Plan. MOSERS issues a publicly available report that includes statements and required supplementary information. That report may be obtained by writing to: Missouri State Employees' Retirement System, 907 Wildwood Drive, P.O. Box 209, Jefferson City, Missouri 65102, by calling (800) 827-1063 or by visiting www.mosers.org.

The MSEP has three structures known as MSEP (closed plan), MSEP 2000, and MSEP 2011. The MSEP covers all full-time employees hired before July 1, 2000, who are not covered under another state-sponsored retirement plan. MSEP 2000 covers all full-time employees hired on or after July 1, 2000 and before January 1, 2011. MSEP 2011 covers all full-time employees hired on or after January 1, 2011. Members of the closed plan have the option at retirement to choose between the structure of the MSEP or MSEP 2000.

Benefits Provided

MOSERS provides retirement, disability, and life insurance to eligible employees. Employees covered by the MSEP and the MSEP 2000 plans are fully vested after 5 years of creditable service. Beginning January 1, 2018, employees covered by the MSEP 2011 plan are fully vested after 5 years of creditable service (2017 legislation reduced the vesting period from 10 to 5 years for MSEP 2011 members). The base retirement are calculated by multiplying the employee's average pay by a factor multiplied by the years of credited service. Retirement eligibility requirements are as follows:

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7. Pension Plan (continued)
Benefits Provided (continued)

MSEP

Age 65 and active with 4 years of service
Age 65 with 5 years of service
Age 60 with 15 years of service
Age 48 with age and service equaling 80 or more (Rule of 80)
Employees may retire early at age 55 with at

MSEP 2000

Age 62 with 5 years of service
Age 48 with age and service equaling 80 or more (Rule of 80)
Employees may retire early at age 57 with at least

pay multiplied by years of credited service.

pay multiplied by years of credited service.

MSEP 2011

Age 67 with 5 years of service
Age 55 with age and service equaling 90 or more (Rule of 90)
Employees may retire early at age 62 with at least 5 years of service with

pay multiplied by years of credited service.

For members hired prior to August 28, 1997, cost of living adjustments (COLAs) are provided annually based on 80% of the percentage increase in the average Consumer Price Index (CPI) from one year to the next, with a minimum rate of 4% and a maximum rate of 5%, until the cumulative amount of COLAs equals 65% of the original thereafter the 4% minimum rate is eliminated. For members hired on or after August 28, 1997, COLAs are provided annually based on 80% of the percentage increase in the average CPI from one year to the next, up to a maximum rate of 5%. terminated-vested members of MSEP may make a one-time election to receive the present value of their in a lump sum payment. To qualify, a member must have terminated with at least 5, but less than 10 years of service, an \$10,000.

Contributions

Per Chapter 104.436 RSMo., contribution requirements of the active employees and the participating employers are established and may be amended by the MOSERS Board. Employees in the MSEP 2011 Plan are required to contribute 4% of their annual pay. The Lottery's required contribution rates for the years ended June 30, 2019 and June 30, 2018 were 20.21% and 19.45%, respectively, of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to the costs of earned by employees during the year, with an additional amount to any unfunded accrued liability. Lottery contributions to the MSEP at June 30, 2019 and 2018 were \$1,372,300 and \$1,290,995, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019 and June 30, 2018, liabilities of \$19,388,641 and \$18,003,639, respectively, were reported for the proportionate share of the Lottery's net pension liability in the MSEP. The net pension liability and proportionate share were measured as of June 30, 2018 and June 30, 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of these dates.

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7. Pension Plan (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

The Lottery's proportion of the net pension liability was based on Lottery's actual share of contributions to the pension plan relative to the actual contributions of all participating reporting units, actuarially determined. At the June 30, 2018 measurement date, the Lottery's proportion was .41%, a decrease from its proportion measured using .42% as of the June 30, 2017 measurement date.

There were no changes in terms during the MSEP plan year ended June 30, 2018 that affected the measurement of total pension liability.

For the years ended June 30, 2019 and 2018, the Lottery recognized pension expense of \$3,419,410 and \$3,003,389, respectively. At June 30, 2019 and 2018, the Lottery reported deferred of resources and deferred of resources related to pensions as follows:

	2019	2018	2019	2018
Difference between expected and actual experience	\$43,353	\$98,277	\$450,993	\$279,384
Changes of assumptions	1,641,724	1,556,587		44,522
Net difference between projected and actual earnings on pension plan investments	2,240,428	2,971,578		
Changes in proportion and difference between Lottery contributions and Proportionate share of contributions	76,637		2,597	10,571
Lottery contributions subsequent to the measurement date	1,372,300	1,290,995		
Total	<u>\$5,374,442</u>	<u>\$5,917,437</u>	<u>\$453,590</u>	<u>\$334,477</u>

Amounts reported as deferred of resources related to pensions resulting from Lottery contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred of resources and deferred of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	
2020	2,184,829
2021	994,400
2022	368,108
2023	1,215
Total	<u><u>\$3,548,552</u></u>

Actuarial Assumptions

The total pension liability in the June 30, 2018 and 2017 actuarial valuations, which are also the dates of measurement for GASB 68 purposes, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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7. Pension Plan (continued)

Actuarial Assumptions(continued)

	June 30, 2018	June 30, 2017
	2.5%	2.5%
Salary Increases (including W	3.0% to 8.5%	3.25% to 8.75%
	2.5%	3.0%
Investment Rate of Return		
(compounded annually, net after investment expenses	7.25%	7.5%

The actuarial assumptions used in the June 30, 2018 and 2017 valuations were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2015.

Mortality rates used in the June 30, 2018 and 2017 valuations for post-retirement mortality are based on the RP-2014 Healthy Annuitant mortality table, projected to 2026 with Scale MP-2015 and scaled by 120%. The pre-retirement mortality table used is the RP-2014 Employee mortality table, projected to 2026 with Scale MP-2015 and scaled by 95% for males and 90% for females.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates rates of expected future real rates of return (expected returns, net of pension plan investment expense and are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the policy allocation percentage and by adding expected Best estimates of geometric real rates of return for each major asset class included in MOSERS policy allocation as of June 30, 2018 and 2017, are summarized in the following table:

Asset Class	Policy Allocation	Long-Term Expected Real Rate of Return*	Weighted Average Long-Term Expected Real Rate of Return
Opportunistic global equity	38%	5.5%	2.1%
Nominal bonds	44%	1.0%	0.5%
Commodities	20%	4.5%	0.9%
	39%	0.8%	0.3%
Alternative beta	31%	4.5%	1.4%
	<u>172.0%</u>		<u>5.2%</u>

* Represent best estimates of geometric rates of return for each major asset class included.

Discount Rate

The discount rate used to measure the total pension liability at June 30, 2018 and 2017 was 7.25 percent and 7.5 percent, respectively. The projection of cash used to determine the discount rates assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at required rates, actuarially determined. Based on those assumptions, the pension plan's net position at June 30, 2018 and 2017 was projected to be available to make all projected future payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected payments to determine the total pension liability at June 30, 2018 and 2017.

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Notes To The Basic Financial Statements
June 30, 2019 and 2018

7. Pension Plan (continued)

Sensitivity of the Lottery's Proportionate Share of Net Pension Liability to Changes in the Discount Rate

The following presents net pension liability, calculated using a single discount rate as well as what net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

	1% Decrease		Current Single Discount Rate Assumption		1% Increase	
	2019	2018	2019	2018	2019	2018
	6.25%	6.50%	7.25%	7.50%	8.25%	8.50%
Lottery's Proportionate Share of Net Pension Liability	<u>\$24,767,423</u>	<u>\$23,180,103</u>	<u>\$19,388,641</u>	<u>\$18,003,639</u>	<u>\$14,865,696</u>	<u>\$13,649,608</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's net position is available in the separate reports issued by MOSERS which may be requested from:

Missouri State Employees' Retirement System
P.O. Box 209
907 Wildwood Drive
Jefferson City, Missouri 65102-0209

Payables to the Pension Plan

The Lottery had payables to MOSERS for the pension plan of approximately \$58,000 and \$54,000 as of June 30, 2019 and 2018, respectively, due to the state's half month lag payroll.

8. Leases

Operating Leases

The Lottery's regional facilities are held under operating lease agreements. The lease agreement for the St. Louis is set to expire December 31, 2020. The lease agreement for the is under a one-year agreement with four one-year renewal options set to expire June 30, 2024. The lease agreement for the Kansas City is set to expire June 30, 2020. Annual rent expense for these facilities for the years ended June 30, 2019 and 2018 totaled approximately \$280,000 and \$280,000, respectively.

The Lottery leases warehouse space in Jefferson City to store Scratchers tickets on hand. The lease term began January 1, 2016 and ended June 30, 2016 with one one-year renewal option that expired June 30, 2017. The lease agreement was amended to extend the lease through June 30, 2018 then continue as month-to-month. Rent expense for the years ended June 30, 2019 and 2018 totaled \$8,101 and \$8,101, respectively.

The Lottery leases 20-bin instant ticket vending machines and associated terminals and peripherals under a December 2018 amendment to the existing computer gaming system agreement. The computer gaming system agreement includes a single percentage of net weekly Draw Game sales as compensation for providing the mandatory requirements of the contract. The 20-bin instant ticket vending machines and associated terminals and peripherals are in addition to the mandatory requirements of the base contract and leased at an additional cost. Annual lease expense for the instant ticket vending machines

Missouri State Lottery Commission
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Notes To The Basic Financial Statements
June 30, 2019 and 2018

8. Leases (continued)

Operating Leases

Future minimum lease payments under all non-cancelable leases having initial or remaining terms in excess of one year as of June 30, 2019 are as follows:

<u>Years Ending June 30</u>	
2020	\$ 1,471,000
2021	757,000
2022	388,000
2023	388,000
2024	388,000
2025	262,000
	<u>\$ 3,654,000</u>

9. Contractual Arrangements

The Lottery maintains contractual arrangements with providers of goods and services critical to the Lottery's operations. contracts include agreements with the providers of the Lottery's Draw Game computer systems and the Lottery's Pull-Tab product, agreements with producers of the Lottery's Scratchers games tickets, and an agreement for advertising services, among others. The contracts require the Lottery to compensate vendors for goods and services that meet stated quality standards. Scratchers game tickets are purchased on a percentage of sales basis. Scratchers tickets on hand in the Lottery's warehouse are held on a consignment basis and are not recorded as inventory.

The Lottery is a member of the Multi-State Lottery Association (MUSL) which consists of 36 member lotteries and operates the Powerball game and the Mega Millions game. Under separate agreements between MUSL and each lottery, the member lotteries sell tickets for the Powerball game and remit 50 percent of sales to MUSL for payment of prizes. On January 31, 2010 the Lottery began selling the Mega Millions jackpot game as an historic cross-selling agreement between Mega Millions and Powerball. Member lotteries sell tickets for the Mega Millions game and currently remit 50 percent of sales to MUSL for payment of prizes. Member lotteries also fund MUSL's operating expenses based on allocations by MUSL.

Powerball and Mega Millions grand-prize winners have the choice of receiving their prize over 29 years (30 annual graduated installments) or a portion of the prize in one lump-sum payment. Investment securities, with maturities that approximate all grand-prize winner payments due to winners of MUSL games, are maintained by MUSL. The investments and related prize liabilities for winners of these games from the State of Missouri are excluded from the accompanying statements. Future grand-prize winner payments of MUSL games due to winners in Missouri are approximately \$26,155,000 and \$26,722,000 as of June 30, 2019 and 2018, respectively.

The Lottery has contributed to a prize reserve fund and set prize reserve fund, separately maintained by MUSL, to protect MUSL members in case of unforeseen liabilities and to pay certain prizes associated with Powerball and Mega Millions, respectively. With certain restrictions, these fund balances are refundable to member lotteries upon termination of the member's agreement with MUSL or upon the disbanding of MUSL. At June 30, 2019 and 2018, the Lottery's portion of the prize reserve fund and set prize reserve fund for Powerball was approximately \$3,039,000 and \$3,175,000, respectively, and \$1,460,000 and \$1,246,000, respectively. At June 30, 2019 and 2018, the Lottery's portion of the prize reserve fund for Mega Millions was approximately \$3,510,000 and \$2,319,000, respectively. The Lottery has charged amounts placed into the prize reserve funds to prize expense as the related sales have occurred. The reserve funds are not on the Lottery's statement of net position as of June 30, 2019 and 2018, respectively.

Missouri State Lottery Commission
(An Enterprise Fund of the State of Missouri)

Notes To The Basic Financial Statements
June 30, 2019 and 2018

9. Contractual Arrangements (continued)

The Lottery has contributed to an account with MUSL which is used to pay certain operating expenses incurred by member lotteries for the Powerball game and the Mega Millions game. With certain restrictions, the balances in this account are refundable to the member lotteries upon termination of the member's agreement with MUSL or upon the disbanding of MUSL. At June 30, 2019 and 2018 the Lottery's portion of the balance of this account was \$63 and \$48,795, respectively, and is reported as other assets.

Lucky for Life is the Lottery's newest multi-state Draw Game. It is currently offered in 25 states and D.C. The Lottery sells Lucky for Life tickets, collects all revenues, and remits prize funds and operating funds to MUSL. While Lucky for Life is not a MUSL game, the party lotteries pay a fee to MUSL to act as the game administrator (clearinghouse agent) for the Lucky for Life game. MUSL collects and re-distributes funds to the party lotteries when funds are due and purchases insurance annuities for the top two highest prize tiers when a winner does not choose a cash pay-out.

Lucky for Life's top two prize tiers are payable in installments and are through insurance annuities purchased by MUSL when a winner chooses the annuity option. MUSL purchases insurance annuities, on behalf of the member states, based on \$365,000 (top prize tier) or \$25,000 (second highest prize tier) per year deferred annuity paid annually on the anniversary of the claim date for the lifetime of the top prize winner. Accordingly, the Lottery does not record an obligation for jackpot awards which are payable in installments from funds provided by MUSL or the other party lotteries. The Lottery does accrue a current amount due for its proportionate share of prizes and expenses. There are no prize reserves held by MUSL for Lucky for Life. The Lottery had an accounts receivable due from the other states of \$681 and \$80,877 for shared low-tier prizes and allocation of expired prizes as of June 30, 2019 and 2018, respectively. The Lottery's share of accrued operating expenses at June 30, 2019 and 2018 was \$3,403 and \$2,955, respectively.

10. Amounts Held On Behalf of Grand-Prize Winners Liability

The Lottery has an implied contract to make future installment payments to grand-prize winners, and as such, recognizes this as amounts held on behalf of grand-prize winners. Amounts due to grand-prize winners are carried at the estimated present value of the prizes that will eventually be awarded. The present value of these payments at June 30, 2019 and 2018 was \$29,249,933 and \$30,786,404 respectively. This is funded with the maturing U.S. Treasury Zero Coupon Bonds that are restricted for this purpose.

The balances of these maturities at June 30, 2019, are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2020	\$ 3,474,000
2021	3,474,000
2022	3,474,000
2023	3,474,000
2024	2,946,000
2025 through 2029	11,934,000
2030 through 2034	5,256,000
2035 through 2039	2,672,000
2040 through 2043	336,000
Total installment payments due	37,040,000
Less- Interest portion	7,790,067
	<u>\$ 29,249,933</u>

Missouri State Lottery Commission
(An Enterprise Fund of the State of Missouri)
Notes To The Basic Financial Statements
June 30, 2019 and 2018

10. Amounts Held On Behalf of Grand-Prize Winners Liability (continued)

The Lottery has also purchased annuity contracts in the name of the prize winners from selected insurance companies to fund certain grand-prize claims. Because it is the intent of the Lottery that the insurance companies make future installment payments directly to each prize winner, neither the value of the annuities nor the value of the related future payments are in the accompanying statements. The Lottery would assume liability for future payments if the insurance companies were to default on their payments; however, this possibility is remote and therefore no liability is recorded. Future payments to be made to grand-prize winners by these insurance companies totaled approximately \$8,385,000 and \$9,040,000 at June 30, 2019 and 2018, respectively.

11. Long-Term Liabilities

The changes in long-term liabilities for the years ended June 30th consist of the following:

	<u>June 30, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2019</u>	<u>Current Portion</u>
Due to Lottery Proceeds Fund	\$31,482,404	\$319,376,658	(\$323,000,000)	\$27,859,062	\$22,732,931
Grand-prize winner liabilities	30,786,404	1,897,529	(3,434,000)	29,249,933	3,474,000
Net pension liability	18,003,639	1,385,002	-	19,388,641	-
Net OPEB liability	7,473,049	-	(50,226)	7,422,823	-
Total	<u>\$87,745,496</u>	<u>\$322,659,189</u>	<u>(\$326,484,226)</u>	<u>\$83,920,459</u>	<u>\$26,206,931</u>

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2018</u>	<u>Current Portion</u>
Due to Lottery Proceeds Fund	\$ 4,161,778	\$333,392,723	(\$306,072,097)	\$31,482,404	\$27,949,949
Grand-prize winner liabilities	32,910,471	1,309,933	(3,434,000)	30,786,404	3,434,000
Net pension liability	16,213,218	1,790,421	-	18,003,639	-
Net OPEB liability, as restated	7,252,358	220,691	-	7,473,049	-
Total	<u>\$ 60,537,825</u>	<u>\$336,713,768</u>	<u>(\$309,506,097)</u>	<u>\$87,745,496</u>	<u>\$31,383,949</u>

12. Other Post-Employment Benefits Plan

Plan Description

As a State agency, the Lottery participates in a cost-sharing multiple-employer Other Post-Employment Plan (OPEB), the State Retiree Welfare Trust (SRWBT), administered by the Missouri Consolidated Health Care Plan (MCHCP). Employees may participate at retirement if eligible to receive a monthly retirement from MOSERS. The terms and conditions governing post-employment are vested with the MCHCP Board of Trustees within the authority granted under Chapter 103 of the Revised Statutes of Missouri. The SRWBT does not issue a separate stand-alone report. Financial activity of the SRWBT is included in MCHCP's comprehensive annual report as a fund and is intended to present only the position of the activities attributable to the SRWBT. Additionally, the MCHCP is considered a component unit of the state of Missouri reporting entity and is included in the state' .mchcp.org.

Benefits Provided

The SRWBT was established and organized on June 27, 2008, to provide health and welfare for the exclusive of current and future retired employees of the state and their dependents who meet eligibility requirements. MCHCP's three medical plans offer the same basic coverage such as preventative care, freedom to choose care from a nationwide network of primary care providers, specialists, pharmacies and hospitals, usually at a lower negotiated group discount and the same covered for both medical and pharmacy. are the same in all three plans; other aspects differ such as premium, deductible and e employees.

Missouri State Lottery Commission
(An Enterprise Fund of the State of Missouri)

Notes To The Basic Financial Statements
June 30, 2019 and 2018

12. Other Post-Employment Benefits Plan (continued)

Contributions

Contributions are established and may be amended by the MCHCP Board of Trustees with the authority granted under Chapter 103 of the Revised Statutes of Missouri. Contributions to MCHCP for OPEB are not legally or contractually required. For the year ended June 30, 2019, the Lottery contributed 4.99% for the period July 1, 2018 through January 31, 2019, 6.19% for the period February 1, 2019 through April 15, 2019, and 4.33% for the period April 16, 2019 through June 30, 2019 of gross active employee payroll toward its contributions. For the year ended June 30, 2018, the Lottery contributed 4.29% for the period July 1, 2017 through December 31, 2017, and 4.24% for the period January 1, 2018 through June 30, 2018, of gross active employee payroll toward its contributions. Retiree contribution rates are established based on projected claims experience and funding provided by employer contributions. Lottery contributions to the OPEB plan were \$346,464 and \$282,881 for the years ended June 30, 2019 and 2018, respectively.

OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019 and 2018, a liability was reported for the proportionate share of the Lottery's net OPEB liability in the SRWBT. The net OPEB liability and proportionate share were measured as of June 30, 2018 and 2017, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by actuarial valuations as of these date.

The State of Missouri's proportion of the net OPEB liability is determined by dividing the State's required contributions to the SRWBT relative to the contributions of all participating reporting units, actuarially determined. At the June 30, 2018 and 2017 measurement dates, the Lottery's proportion of the State's net OPEB liability was .42%. The components of Lottery's net OPEB liability at June 30, 2019 and 2018 are as follows:

	2019	2018
Total Lottery OPEB Liability	\$7,973,250	\$8,004,287
Lottery Fiduciary Net Position	550,427	531,238
Lottery Net OPEB Liability	7,422,823	7,473,049

For the years ended June 30, 2019 and 2018, the Lottery recognized OPEB expense of \$507,650 and \$514,467, respectively. At June 30, 2019 and 2018, the Lottery reported deferred of resources

	2019	2018	2019	2018
Difference between expected and actual experience			\$111,000	\$13,303
Changes of assumptions			189,374	
Net difference between projected and actual earnings on OPEB plan investments	\$10,878			714
Changes in proportion and difference between Lottery contributions and proportionate share of contributions	733	249		
Lottery contributions subsequent to the measurement date	346,464	282,881		
Total	\$358,075	\$283,130	\$300,374	\$14,017

Missouri State Lottery Commission
(An Enterprise Fund of the State of Missouri)
Notes To The Basic Financial Statements
June 30, 2019 and 2018

12. Other Post-Employment Benefits Plan (continued)

OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

Amounts reported as deferred of resources related to OPEB resulting from Lottery contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred of resources and deferred

<u>Years Ended June 30</u>	
2020	\$ (33,252)
2021	(33,252)
2022	(33,252)
2023	(33,076)
2024	(35,928)
2025	(35,928)
2026	(35,928)
2027	(34,702)
2028	(13,445)
Total	<u>\$ (288,763)</u>

Actuarial Assumptions

Actuarial valuations for the SRWBT involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The valuation to determine the SRWBT's total OPEB liability is required to be performed at least every two years. The SRWBT valuation is performed annually, but should the valuation not be performed as of the year end, the total OPEB liability is required to be rolled forward from the actuarial valuation date to the SRWBT plan's year end. Projections of for reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of provided at the time of the valuation and the historical pattern of sharing of costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The collective total OPEB liability for the June 30, 2018 and 2017 measurement dates were determined by actuarial valuations as of January 1, 2018 and 2017, respectively, with updated procedures used to roll forward the total OPEB liability to June 30, 2018 and 2017, respectively. The actuarial valuations used the following actuarial assumptions:

	June 30, 2018	June 30, 2017
Valuation Year	July 1, 2017 - June 30, 2018	July 1, 2016 - June 30, 2017
Actuarial cost method	Entry age normal, level percentage of payroll	Entry age normal, level percentage of payroll
Asset Valuation method	Market value	Market value
Discount rate	5.90%	5.71%
Projected payroll growth rate	4.0%	4.0%
	3.0%	3.0%

Health care cost trend rate (Medical & prescription drugs combined)

Non-Medicare is 6.25% and 6.5% for years 2018 and 2017, respectively; the rate decreases by 0.25% per year to an ultimate rate of 5.0% in year 2023 and later. Medicare is 7.25% and 7.5% for years 2018 and 2017, respectively; the rate decreases by 0.25% per year to an ultimate rate of 5.0% in year 2027 and after.

Mortality rates for years 2018 and 2017 are based on RP-2016 for Employees/Annuitants without collar adjustments using Scale MP-2016.

Missouri State Lottery Commission
(An Enterprise Fund of the State of Missouri)

Notes To The Basic Financial Statements
June 30, 2019 and 2018

12. Other Post-Employment Benefits Plan (continued)

Health care cost trend rate (Medical & prescription drugs combined) (continued)

The last experience study was conducted for the period July 1, 2008 through June 30, 2012. The last independent actuarial review of the reasonableness and accuracy of actuarial assumptions, actuarial cost methods, and valuations was conducted as of June 30, 2018.

Long-Term Expected Rate of Return

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018 and 2017 are listed below:

Asset Class	Target Allocation		Expected Real Return	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Large cap stocks	20%	20%	5.7%	5.7%
Mid cap stocks	10%	10%	6%	6%
Small cap stocks	10%	10%	6%	6%
High-yield bonds	10%	10%	2.9%	2.6%
BarCap Aggregate bonds	20%	20%	1.4%	1%
Long Government/Credit	25%	25%	1.6%	1.4%
Cash equivalents	5%	5%	0.3%	0.3%

Discount Rate

A discount rate of 5.90% and 5.71% was used in years 2019 and 2018, respectively, to measure the total OPEB liabilities. The projection of cash used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and the contributions from employers will be made at statutorily required rates, actuarially determined. This discount rate is determined as a blend of the best estimate of expected return on plan assets and the 20-year high quality municipal bond rate as of the measurement date. For years where expected payments can be covered by projected trust assets, expected returns are used. For years where payments are not expected to be covered by trust assets, the municipal Bond Buyer 20-Bond General Obligation Index rate is utilized.

Sensitivity of the Lottery's Proportionate Share of Net OPEB Liability to Changes in the Discount Rate and Health Care Cost Trend Rates

As required by GASB Statement No. 75, the following table presents the Lottery's proportionate share of the SRWBT's net OPEB liability, as well as what the Lottery's share of net OPEB liability would be if it were calculated using a discount rate and health care cost trend rates that are one percent lower or one percent higher than current rates:

	1% Decrease		Current Single Discount Rate Assumption		1% Increase	
	2019	2018	2019	2018	2019	2018
	4.90%	4.71%	5.90%	5.71%	6.90%	6.71%
Lottery's Proportionate Share of Net OPEB Liability	<u>\$8,731,301</u>	<u>\$8,825,840</u>	<u>\$7,422,823</u>	<u>\$7,473,049</u>	<u>\$6,383,535</u>	<u>\$6,402,333</u>
	1% Decrease		Current Trend Rate		1% Increase	
	2019	2018	2019	2018	2019	2018
Lottery's Proportionate Share of Net OPEB Liability	<u>\$6,353,587</u>	<u>\$6,369,652</u>	<u>\$7,422,823</u>	<u>\$7,473,049</u>	<u>\$8,771,047</u>	<u>\$8,870,531</u>

Missouri State Lottery Commission
(An Enterprise Fund of the State of Missouri)
Notes To The Basic Financial Statements
June 30, 2019 and 2018

13. Contingencies

There are claims and/or lawsuits to which the Lottery is a party as a result of matters arising in the ordinary course of business. The outcome of any claim or lawsuit is not presently determinable. Management does not anticipate the resolution of these matters to have a materially adverse effect on the condition of the Lottery.

Missouri State Lottery Commission
(An Enterprise Fund of the State of Missouri)
Required Supplementary Information
June 30, 2019

Schedule of Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years - See Note below

	<u>2019*</u>	<u>2018*</u>	<u>2017*</u>	<u>2016*</u>
Lottery's proportion of the net pension liability (asset)	0.41%	0.42%	0.37%	0.35%
Lottery's proportionate share of the net pension liability (asset)	\$19,388,641	\$18,003,639	\$16,213,218	\$11,183,713
Lottery's covered payroll	6,637,506	6,705,445	6,920,144	6,817,848
Lottery's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	292.11%	268.49%	234.29%	164.04%
of the total pension liability	59.02%	60.41%	63.60%	72.62%

*Based on a measurement date and actuarial valuation as of the end of the preceding year. The measurement date is as of June 30.

Note: This schedule is ultimately required to show information for ten years. However until a full ten-year trend is compiled, only the years that information is available will be reported.

Schedule of Agency Contributions
Last 10 Fiscal Years - See Note below

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Required Contributions	\$1,372,300	\$1,290,995	\$1,137,914	\$1,154,280	\$1,137,217
Contributions in relation to the required contribution	1,372,300	1,290,995	1,137,914	1,154,280	1,137,217
	-	-	-	-	-
Lottery's covered payroll	6,790,203	6,637,506	6,705,445	6,920,144	6,817,848
Contributions as a percentage of covered payroll	20.21%	19.45%	16.97%	16.96%	16.68%

Note: This schedule is ultimately required to show information for ten years. However until a full ten-year trend is compiled, only the years that information is available will be reported.

Notes to the Schedule

Changes of benefit terms: Senate Bill 62 (SB 62), which contained changes to the structure for MSEP 2011, was passed by the 2017 legislature. The provisions of the bill decreased vesting from ten to years of service, but also included provisions that essentially offset the cost of the vesting change. As a result, SB 62 had no impact on the employer contribution rate and created a decrease to the UAAL of \$1.6 million.

Changes of assumptions: The board reduced the investment return assumption used in the June 30, 2018 valuation to 7.25%.

Missouri State Lottery Commission
 (An Enterprise Fund of the State of Missouri)
Required Supplementary Information
June 30, 2019

Schedule of Proportionate Share of the Net OPEB Liability
Last 10 Fiscal Years - See Note Below

	<u>2019*</u>	<u>2018*</u>
Lottery's proportion of the State's net OPEB liability (asset)	0.42%	0.42%
Lottery's proportionate share of the State's net OPEB liability (asset)	\$ 7,422,823	\$ 7,473,049
Lottery's covered payroll	6,681,339	6,191,921
Lottery's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	111.10%	120.69%
	6.90%	6.64%

*Based on a measurement date and actuarial valuation as of the end of the preceding year. The measurement date is as of June 30.

Note: This schedule is ultimately required to show information for ten years. However until a full ten-year trend is compiled, only the years that information is available will be reported.

Notes to the Schedule

Changes of benefit terms:

Changes of assumptions: The discount rate went from 5.71% to 5.9%.

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Statistical Section

(Unaudited)

Missouri State Lottery Commission Statistical Information Section

This section of the Missouri State Lottery Commission’s comprehensive annual report presents detailed information as a supplement to the information presented in the statements and note disclosures to assist readers in assessing the Lottery’

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Financial Trends	49
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These schedules contain trend information from the current year and prior years’ comprehensive annual reports to help a reader understand how the Lottery’s performance and position have changed over time.

Revenue Capacity	56
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These schedules contain information to help the reader assess factors affecting the Lottery’s ability to generate sales of lottery tickets. Scratchers ticket game strategies, such as price points and launch schedules, affect the selection and availability of products for sale at retail locations. Information for draw sales by game, included in the trends section, provides data about the various drawing based games that are available to the public. The Lottery’s statewide retailer network determines the market exposure for Scratchers and Draw Games.

Demographic and Economic Information	60
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These schedules contain demographic and economic indicators to help a reader understand the environment in which the Lottery operates.

Operating Information	63
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These schedules contain demographic and economic indicators to help a reader understand the environment in which the Lottery operates.

With the exception of information on retailers and sales for each region, statistical information is provided for the most recent ten years. In the future, data for this schedule will be accumulated and, in due course, the schedule will contain information for a ten-year period.

Financial Trends

Information for the Missouri State Lottery Commission for the last ten years, 2010 through 2019, is presented in the accompanying schedules and charts. The Missouri State Lottery Commission was created on November 6, 1984 by the passage of a constitutional amendment and began selling tickets in January 1986.

The following information is presented in the accompanying schedules and charts:

Revenue – includes sales, interest income, retailer fees and other income amounts. Interest income

Sales

Retailer commission and incentives – includes the base commission and cashing, promotional and program incentive payments.

Prizes

ers.

Ticket costs – includes the purchase cost of Scratchers and pull-tab tickets and payments to the Draw Game games service provider.

Administration – includes all operating expenses not included in prizes, retailer commissions and incentives or ticket costs.

Transfers to the State – the transfer of net income, excluding unrealized gains on investments, amortization of grand-prize winner liability and changes in net position related to pensions and other post-employment to the Lottery Proceeds Fund for years 2010 through 2019. Transfers made during year 2019 include \$18,359,576 of unclaimed prizes. The Lottery Proceeds Fund is appropriated by the Missouri State General Assembly to the Department of Higher Education and the Department of Elementary and Secondary Education. not yet transferred are shown on the balance sheet as a liability.

Expenses and transfers – includes prizes, retailer commissions and incentives, ticket costs and administration costs as described above, as well as transfers made to the state.

Unless otherwise noted, the source for the data used to prepare the following schedules and charts is the Financial Accounting Section of the Missouri State Lottery Commission.

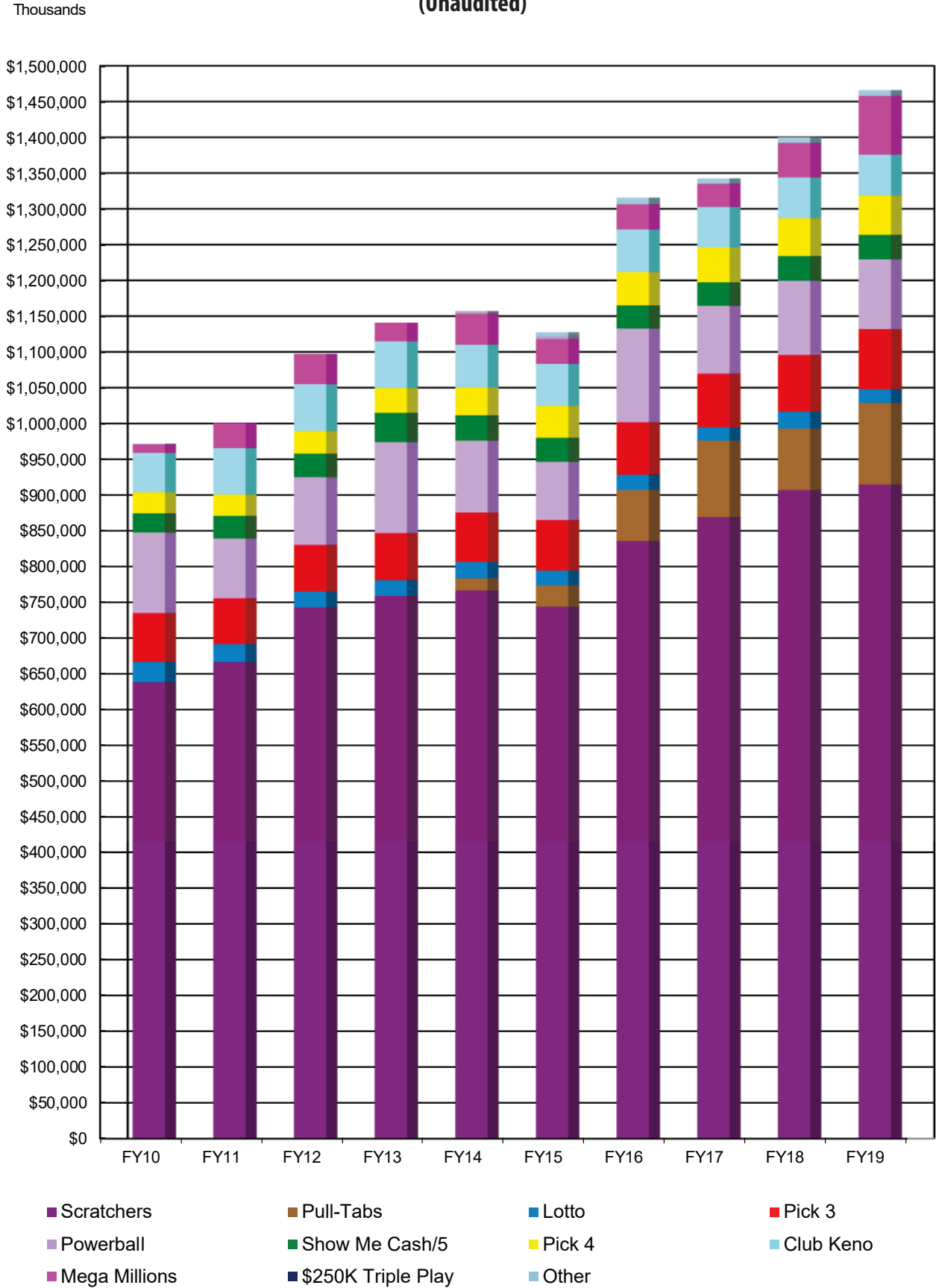
Missouri State Lottery Commission
Schedule of Changes in Net Position and Schedule of Net Position
Last Ten Fiscal Years
(Unaudited)

	2010	2011	2012	2013
Operating Revenues				
Scratchers ticket sales	\$638,062,954	\$666,315,849	\$742,541,015	\$758,900,234
Draw Game ticket sales				
Lotto	28,751,655	25,214,432	22,564,631	22,114,822
Pick 3	68,177,109	64,075,659	65,074,532	65,755,962
Powerball	112,711,538	83,319,805	94,688,699	127,027,808
Show Me Cash	26,711,262	29,503,742	28,970,446	36,830,777
Pick 4	29,117,093	29,557,118	31,378,162	34,491,756
Club Keno	55,192,089	65,302,751	65,331,226	65,389,456
Mega Millions	12,059,295	34,852,442	42,792,811	26,028,887
Show Me Cash EZ Match	-	2,490,930	4,086,174	4,293,456
\$250K Triple Play	-	-	-	-
Lucky For Life	-	-	-	-
Lotto EZ Match	-	-	-	-
Pick 3 EZ Match	-	-	-	-
Pick 4 EZ Match	-	-	-	-
Monopoly Millionaire's Club	-	-	-	-
Lucky Dough	1,081,490	45,678	-	-
Total draw game ticket sales	333,801,531	334,362,557	354,886,681	381,932,924
Pull-Tab ticket sales	-	-	-	-
Total sales	971,864,485	1,000,678,406	1,097,427,696	1,140,833,158
Other Operating Revenues	50,414	523,186	1,294,455	706,055
Total operating revenues	971,914,899	1,001,201,592	1,098,722,151	1,141,539,213
Operating Expenses				
Direct costs				
Prize expense	628,057,994	648,382,278	722,079,619	752,964,849
Retailer compensation	59,900,383	61,850,265	67,830,868	70,326,011
Ticket costs	16,106,631	16,522,096	15,318,902	16,395,935
Total direct costs	704,065,008	726,754,639	805,229,389	839,686,795
Administrative expenses	20,809,357	28,688,464	30,380,982	36,655,720
Total operating expenses	724,874,365	755,443,103	835,610,371	876,342,515
Operating Income	247,040,534	245,758,489	263,111,780	265,196,698
Nonoperating Revenues (Expenses)				
Interest income	310,040	151,545	94,134	91,150
Unclaimed prizes*	12,318,398	9,853,309	10,385,777	14,695,619
Net increase (decrease) in the fair value of investments	4,560,063	1,258,170	5,882,052	(884,228)
Amortization of grand prize winner liability	(3,381,475)	(2,904,666)	(2,509,798)	(3,160,411)
Gain (loss) on disposal of assets	3,739	43,687	6,109	23,572
Transfers to the state	(259,672,711)	(255,807,030)	(273,597,799)	(280,007,039)
Total nonoperating expenses	(245,861,946)	(247,404,985)	(259,739,525)	(269,241,337)
Changes In Net Position	1,178,588	(1,646,496)	3,372,255	(4,044,639)
Total Net Position, Beginning of Year	6,770,645	7,949,233	6,302,737	9,674,992
Prior Period Adjustment	-	-	-	-
Total Net Position, End of Year	\$7,949,233	\$6,302,737	\$9,674,992	\$5,630,353
* - effective July 1, 2000, at the directive of the State of Missouri, the Lottery transfers all unclaimed prizes to the Lottery Proceeds Fund				
Net Position				
Invested in capital assets	\$3,458,481	\$3,364,727	\$3,442,269	\$3,123,532
Unrestricted	(3,458,481)	(3,364,727)	(3,442,269)	(3,123,532)
Restricted	7,949,233	6,302,737	9,674,992	5,630,353
Total Net Position	\$7,949,233	\$6,302,737	\$9,674,992	\$5,630,353

2014	2015	2016	2017	2018	2019
<u>\$766,609,691</u>	<u>\$743,764,015</u>	<u>\$835,592,355</u>	<u>\$868,860,724</u>	<u>\$906,750,562</u>	<u>\$914,449,548</u>
22,610,711	20,643,747	21,374,724	18,280,882	22,911,132	18,671,459
69,264,771	70,473,352	73,244,815	74,396,147	78,714,007	83,426,776
100,524,928	81,534,778	130,774,026	94,886,472	103,895,726	97,546,934
31,845,652	30,411,294	29,260,709	29,834,262	31,710,747	31,721,903
38,840,458	44,672,747	46,410,375	48,279,354	52,354,221	54,674,668
60,109,683	58,358,785	59,642,782	56,746,940	57,363,460	57,329,788
42,499,882	34,946,306	34,603,961	32,172,193	48,248,806	81,815,047
3,483,316	3,212,177	3,293,204	2,987,888	2,744,743	2,623,355
4,237,043	4,001,958	1,518,956	-	-	-
-	4,636,613	8,429,647	7,818,884	7,938,172	8,240,962
-	-	-	241,215	626,752	602,855
-	-	-	534,136	499,714	482,942
-	-	-	448,894	426,778	391,317
-	807,895	-	-	-	-
-	-	-	-	-	-
373,416,444	353,699,652	408,553,199	366,627,267	407,434,258	437,528,006
17,024,939	29,891,139	71,479,292	107,177,118	86,031,403	114,051,149
1,157,051,074	1,127,354,806	1,315,624,846	1,342,665,109	1,400,216,223	1,466,028,703
92,041	460,531	203,982	122,247	141,620	173,686
<u>1,157,143,115</u>	<u>1,127,815,337</u>	<u>1,315,828,828</u>	<u>1,342,787,356</u>	<u>1,400,357,843</u>	<u>1,466,202,389</u>
766,226,926	755,428,901	888,861,166	932,097,045	939,479,882	1,015,091,349
70,560,397	68,399,542	78,001,381	78,489,752	82,609,174	85,644,851
17,911,043	16,163,284	23,705,430	23,623,749	26,730,754	27,756,254
854,698,366	839,991,727	990,567,977	1,034,210,546	1,048,819,810	1,128,492,454
39,492,161	33,486,809	34,450,976	36,297,356	38,007,277	39,610,006
894,190,527	873,478,536	1,025,018,953	1,070,507,902	1,086,827,087	1,168,102,460
262,952,588	254,336,801	290,809,875	272,279,454	313,530,756	298,099,929
82,805	77,934	104,369	186,447	464,854	907,464
14,437,266	16,788,784	12,023,258	19,209,102	18,050,899	18,359,576
1,077,556	1,342,321	3,018,090	(1,098,544)	(313,392)	2,415,701
(1,818,487)	(1,644,196)	(1,501,380)	(1,370,943)	(1,309,933)	(1,232,986)
65,420	49,465	13,335	(18,788)	31,570	65,709
<u>(277,538,079)</u>	<u>(271,252,985)</u>	<u>(302,582,776)</u>	<u>(291,583,694)</u>	<u>(333,392,723)</u>	<u>(319,376,658)</u>
<u>(263,693,519)</u>	<u>(254,638,677)</u>	<u>(288,925,104)</u>	<u>(274,676,420)</u>	<u>(316,468,725)</u>	<u>(298,861,194)</u>
(740,931)	(301,876)	1,884,771	(2,396,966)	(2,937,969)	(761,265)
5,630,353	4,889,422	(5,246,678)	(3,361,907)	(12,731,223)	(15,669,192)
-	(9,834,224)	-	(6,972,350)	-	-
<u>\$4,889,422</u>	<u>(\$5,246,678)</u>	<u>(\$3,361,907)</u>	<u>(\$12,731,223)</u>	<u>(\$15,669,192)</u>	<u>(\$16,430,457)</u>
\$2,859,744	\$2,363,309	\$2,935,542	\$2,969,888	\$2,594,509	\$2,292,937
(2,859,744)	(12,197,533)	(12,401,704)	(19,335,879)	(20,275,144)	(21,917,552)
4,889,422	4,587,546	6,104,255	3,634,768	2,011,443	3,194,158
<u>\$4,889,422</u>	<u>\$(5,246,678)</u>	<u>\$(3,361,907)</u>	<u>\$(12,731,223)</u>	<u>\$(15,669,192)</u>	<u>\$(16,430,457)</u>

ere recorded to establish the Lottery's net pension liability pursuant to GASB 68 and net OPEB liability pursuant to GASB 75, respectively.

Missouri State Lottery Commission
 Sales By Product
 Last Ten Fiscal Years
 (Unaudited)

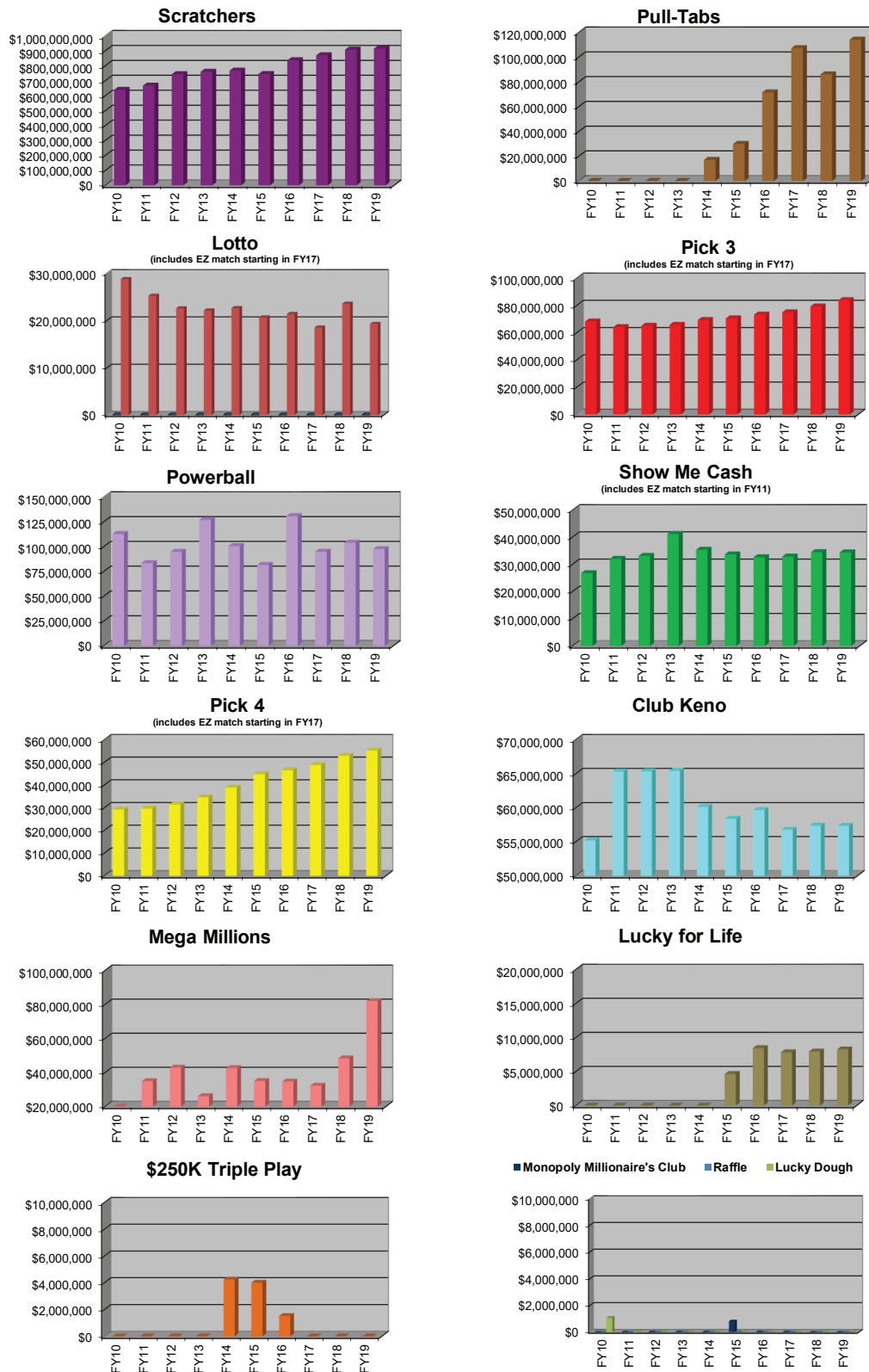


Missouri State Lottery Commission

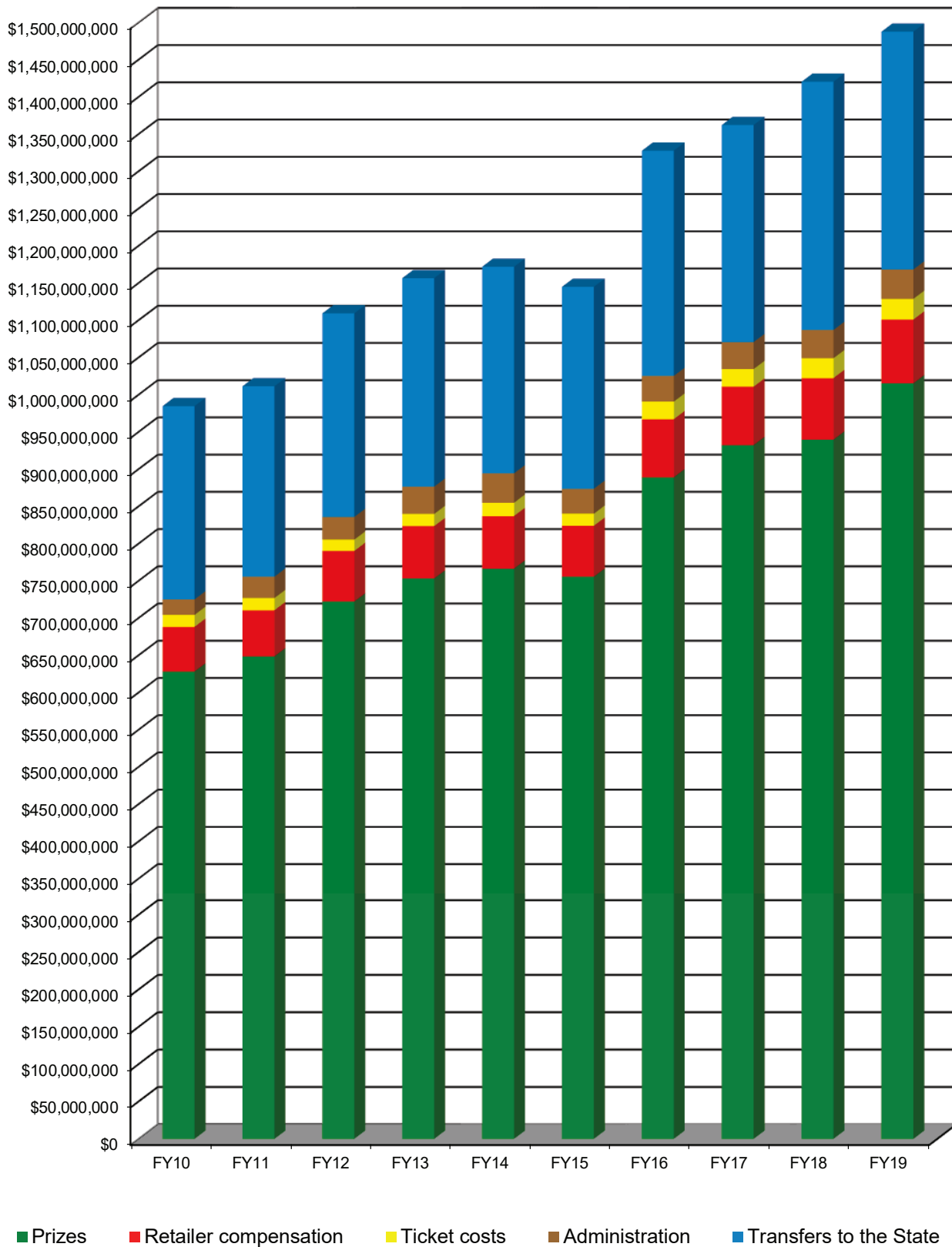
Sales By Fiscal Year By Product Line

Last Ten Fiscal Years

(Unaudited)

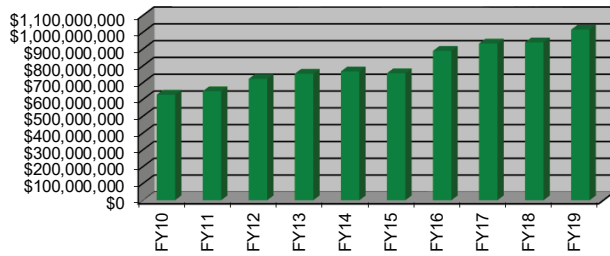


**Missouri State Lottery Commission
Expenses and Transfers
Last Ten Fiscal Years
(Unaudited)**

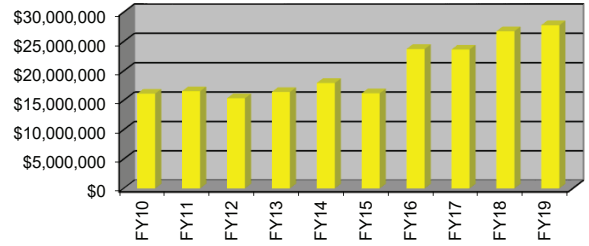


Missouri State Lottery Commission Expenses and Transfers Last Ten Fiscal Years (Unaudited)

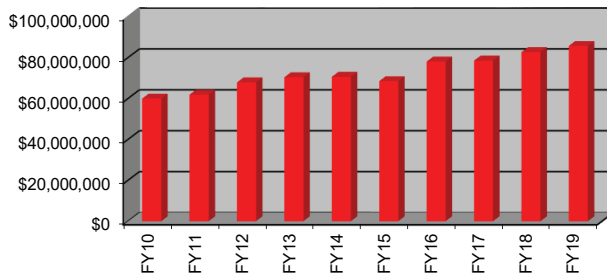
Prizes



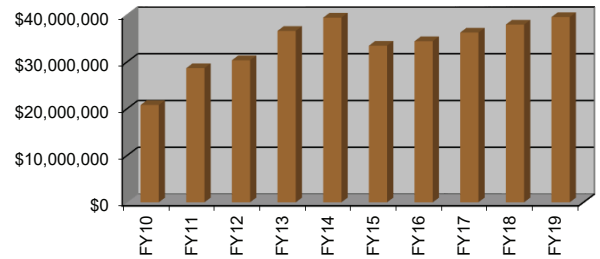
Ticket Costs



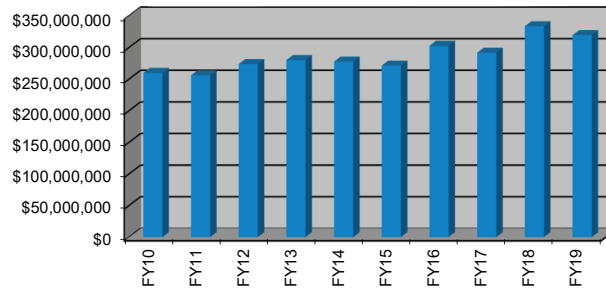
Retailer Compensation



Administration



Transfers to the State



Missouri State Lottery Commission
Schedule of Scratchers Ticket Game Launches and Sales By Price Point
Last Ten Fiscal Years
(Unaudited)

Price Point	2010	2011	2012	2013	2014
Number of Launches					
\$1	11	11	12	10	6
\$2	14	14	15	12	10
\$3	7	7	6	7	8
\$5	8	11	14	11	16
\$10	3	2	3	3	3
\$20	1	1	1	1	2
\$30	-	-	-	-	-
Total	44	46	51	44	45
Sales					
\$1	\$82,671,825	\$81,643,988	\$84,981,064	\$81,479,080	\$67,530,816
\$2	142,217,688	142,079,513	151,120,846	148,101,059	133,719,339
\$3	88,327,022	92,204,540	85,998,362	79,783,688	70,847,146
\$5	147,668,657	166,281,836	206,417,583	233,455,702	245,810,603
\$10	96,437,335	92,587,827	105,138,848	106,694,693	98,581,760
\$20	80,740,427	91,518,145	108,884,312	109,386,013	150,120,027
\$30	-	-	-	-	-
	\$638,062,954	\$666,315,849	\$742,541,015	\$758,900,234	\$766,609,691

2015	2016	2017	2018	2019	% of Total 2019
6	8	8	7	9	20.93%
9	11	11	10	8	18.60%
6	6	6	5	6	13.95%
14	14	14	15	14	32.56%
3	3	4	5	3	6.98%
3	3	3	2	3	6.98%
-	1	-	1	-	0.00%
41	46	46	45	43	100.00%
\$70,466,360	\$69,556,923	\$61,404,484	\$61,455,342	\$63,970,204	7.00%
115,372,245	125,658,860	120,259,769	116,516,076	107,261,671	11.73%
76,015,501	80,490,586	81,931,742	80,019,178	75,553,505	8.26%
231,533,175	235,525,993	246,784,001	273,134,172	270,818,966	29.62%
94,803,988	95,754,447	120,826,419	135,128,381	136,449,859	14.92%
155,572,746	149,331,212	122,653,907	112,895,469	120,019,568	13.12%
-	79,274,333	115,000,402	127,601,943	140,375,775	15.35%
\$743,764,015	\$835,592,355	\$868,860,724	\$906,750,562	\$914,449,548	100.00%

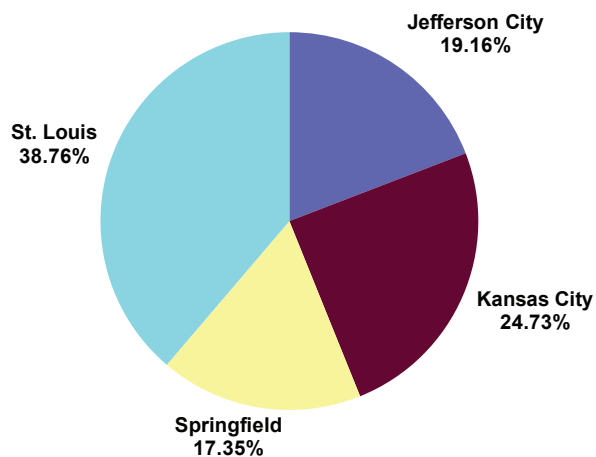
Missouri State Lottery Commission
Schedule of Lottery Retailers and Sales By Region
Last Ten Fiscal Years
(Unaudited)

Region	Number of Retailers									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Jefferson City	863	890	947	923	921	906	884	899	905	900
Kansas City	1,273	1,307	1,242	1,237	1,249	1,203	1,191	1,163	1,164	1,162
Springfield	875	879	838	817	811	811	828	816	816	815
St. Louis	1,767	1,785	1,911	1,888	1,906	1,872	1,829	1,831	1,827	1,821
Total Statewide	4,778	4,861	4,938	4,865	4,887	4,792	4,732	4,709	4,712	4,698

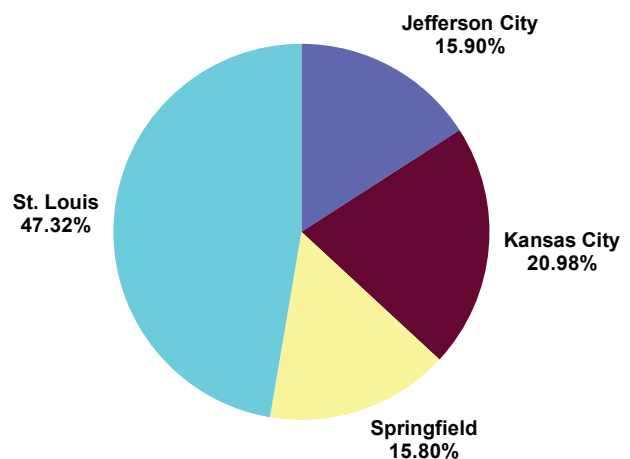
Region	Total Sales									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Jefferson City	\$148,986,826	\$167,613,633	\$182,611,969	\$186,754,388	\$189,640,671	\$187,591,840	\$219,051,537	\$225,030,672	\$228,935,352	\$233,098,564
Kansas City	219,544,187	212,143,822	235,727,469	246,191,795	250,154,442	236,857,245	278,649,342	279,408,609	\$291,805,061	\$307,572,822
Springfield	164,536,657	159,408,070	175,917,660	180,593,889	180,731,378	176,994,705	206,553,101	212,812,420	\$223,474,509	\$231,632,535
St. Louis	438,796,815	461,512,881	503,170,598	527,293,086	536,524,583	525,911,017	611,370,866	625,413,408	\$656,001,300	\$693,724,782
Total Statewide	\$971,864,485	\$1,000,678,406	\$1,097,427,696	\$1,140,833,158	\$1,157,051,074	\$1,127,354,806	\$1,315,624,846	\$1,342,665,109	\$1,400,216,223	\$1,466,028,703

FY2019

Percentage of Retailers By Region



Percentage of Total Sales by Region



Source: Missouri State Lottery Commission Research Section

% of Total Retailers									
2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
18.06%	18.31%	19.18%	18.97%	18.85%	18.91%	18.68%	19.09%	19.21%	19.16%
26.64%	26.89%	25.15%	25.43%	25.56%	25.10%	25.17%	24.70%	24.70%	24.73%
18.32%	18.08%	16.97%	16.79%	16.59%	16.92%	17.50%	17.33%	17.32%	17.35%
36.98%	36.72%	38.70%	38.81%	39.00%	39.07%	38.65%	38.88%	38.77%	38.76%
100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
% of Total Sales									
2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
15.33%	16.75%	16.64%	16.37%	16.39%	16.64%	16.65%	16.76%	16.35%	15.90%
22.59%	21.20%	21.48%	21.58%	21.62%	21.01%	21.18%	20.81%	20.84%	20.98%
16.93%	15.93%	16.03%	15.83%	15.62%	15.70%	15.70%	15.85%	15.96%	15.80%
45.15%	46.12%	45.85%	46.22%	46.37%	46.65%	46.47%	46.58%	46.85%	47.32%
100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Missouri State Lottery Commission
Schedule of Demographic and Economic Statistics
Calendar Years 2010 To 2019
(Unaudited)

Calendar Year	Statewide Population	Statewide Personal Income (millions of dollars)	Statewide Personal Income per Capita	State Unemployment Rate
2010	5,988,927	\$221,465	\$36,979	9.2%
2011	6,010,688	\$229,898	\$38,248	8.7%
2012	6,021,988	\$235,154	\$39,049	7.1%
2013	6,044,171	\$241,145	\$39,897	6.9%
2014	6,063,589	\$252,325	\$41,613	6.5%
2015	6,083,672	\$260,123	\$42,752	5.8%
2016	6,093,000	\$266,406	\$43,723	4.5%
2017	6,113,532	\$266,921	\$43,661	3.8%
2018	6,126,452	\$285,704	\$46,635	3.5%
2019	n/a	n/a	n/a	3.5%

Sources:

Population from U.S. Census Bureau;

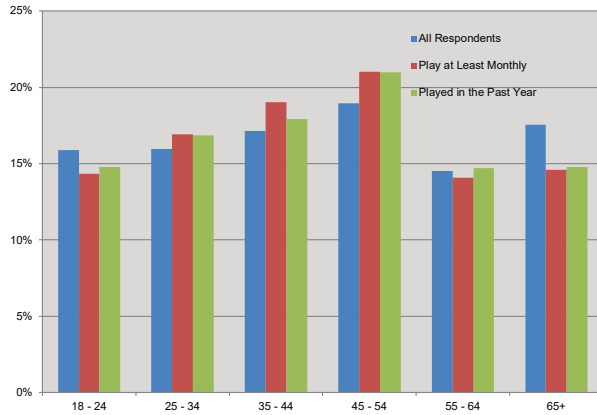
Personal income from U.S. Bureau of Economic Analysis

Unemployment rate from U.S. Department of Labor, Bureau of Statistics

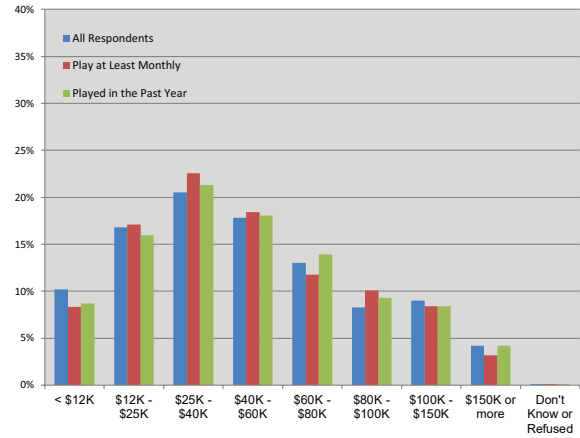
n/a - not yet available

Missouri State Lottery Commission Demographic Group Participation Fiscal Year 2019 (Unaudited)

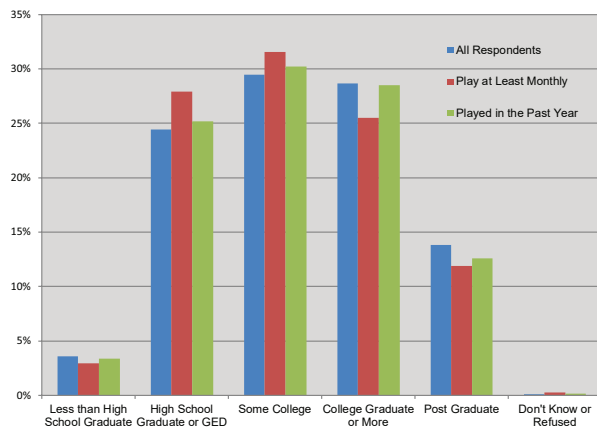
FY19 Age Groups



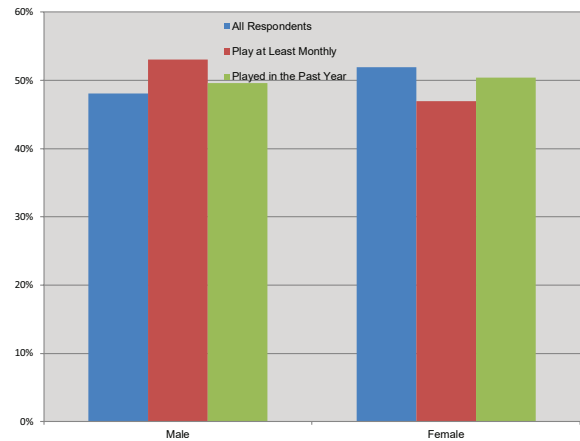
FY19 Annual Income



FY19 Education



FY19 Gender



Source: Missouri Lottery Track and Trend Report FY2019

**Missouri State Lottery Commission
State of Missouri Major Employers
Calendar Years 2018 and 2009
(Unaudited)**

2018

Employer	Number of Employees	Percent of Total State Employment
STATE OF MISSOURI	60,000 +	2.30%
WAL-MART ASSOCIATES, INC.	40,000 +	1.53%
UNIVERSITY OF MISSOURI	20,000-25,000	0.77%-0.96%
US POST OFFICE	15,000-20,000	0.57%-0.77%
THE WASHINGTON UNIVERSITY	10,000-15,000	0.38%-0.57%
THE BOEING COMPANY	10,000-15,000	0.38%-0.57%
DEPARTMENT OF DEFENSE	7,500-10,000	0.29%-0.38%
BARNES-JEWISH HOSPITAL	7,500-10,000	0.29%-0.38%
SCHNUCK MARKETS, INC.	7,500-10,000	0.29%-0.38%
DIVISION OF ADULT INSTITUTIONS	7,500-10,000	0.29%-0.38%
CITY OF ST. LOUIS	7,500-10,000	0.29%-0.38%
	192,500 - 225,000	7.38% - 8.6%
Total Statewide Employment	2,607,478	

2009

Employer	Number of Employees	Percent of Total State Employment
STATE OF MISSOURI	60,000 +	2.12%
WAL-MART ASSOCIATES, INC.	40,000 +	1.41%
MERCY HEALTH	20,000-25,000	0.70%-0.88%
UNIVERSITY OF MISSOURI	20,000-25,000	0.70%-0.88%
THE WASHINGTON UNIVERSITY	15,000-20,000	0.53%-0.70%
US POST OFFICE	15,000-20,000	0.53%-0.70%
THE BOEING COMPANY	10,000-15,000	0.35%-0.53%
CERNER CORPORATION	10,000-15,000	0.35%-0.53%
BARNES-JEWISH HOSPITAL	10,000-15,000	0.35%-0.53%
DEPARTMENT OF VETERANS AFFAIRS	10,000-15,000	0.35%-0.53%
SCHNUCK MARKETS	7,500-10,000	0.26%-0.35%
	217,500 - 260,000	7.65% - 9.16%
Total Statewide Employment	2,824,847	

-year average.

*Number of State of Missouri employees includes only full-time personnel and does not include college or university employees. It also excludes Division of Administration and Division of Adult Institutions, which are considered substantial employers in Missouri. Their employment has been deducted from the State of Missouri total, because individually they are in the top ten of Missouri employers.

Sources: Missouri Economic Research and Information Center

**Missouri State Lottery Commission
Schedule of Lottery Employees
Last Ten Fiscal Years
(Unaudited)**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Full-time	163.0	159.0	153.0	153.0	153.0	153.0	153.0	153.0	153.0	153.0
Part-time	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>
Total	<u>163.5</u>	<u>159.5</u>	<u>153.5</u>	<u>153.5</u>	<u>153.5</u>	<u>153.5</u>	<u>153.5</u>	<u>153.5</u>	<u>153.5</u>	<u>153.5</u>
Sales										
Jefferson City	9.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
	9.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Kansas City	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0
St. Louis	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Inside Sales	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Vault	12.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Marketing and administration	<u>88.5</u>	<u>85.5</u>	<u>79.5</u>	<u>79.5</u>	<u>79.5</u>	<u>79.5</u>	<u>79.5</u>	<u>79.5</u>	<u>79.5</u>	<u>79.5</u>
Total	<u>163.5</u>	<u>159.5</u>	<u>153.5</u>	<u>153.5</u>	<u>153.5</u>	<u>153.5</u>	<u>153.5</u>	<u>153.5</u>	<u>153.5</u>	<u>153.5</u>

Source:

**Missouri State Lottery Commission
Schedule of Operating Indicators
Last Ten Fiscal Years
(Unaudited)**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Retailers-										
Statewide	4,778	4,861	4,938	4,865	4,887	4,792	4,732	4,709	4,712	4,698
Per Capita Sales	\$162	\$167	\$183	\$189	\$191	\$186	\$216	\$220	\$229	\$239

Source: Missouri State Lottery Commission Research and Licensing Sections

U.S. Lotteries' Fiscal Year 2018 Sales by Game*(Unaudited)

(in \$millions)

(in \$millions)				Draw Games											
Lottery	Pop. (M)	Instant	Pulltab	3-digit	4-digit	Lotto	Power Ball	Mega Millions	Bloc Lotto	ITG	Keno	Other	Total Sales	PC Sales	VLT (net)
Arizona	7.0	710.9	8.7	11.8		62.5	118.5	60.9		8.1			981.4	140	
Arkansas	3.0	407.6		7.7	4.5	7.9	36.8	19.6	2.9	12.7			499.7	167	
California	39.5	5,077.4		149.4	29.8	429.9	537.0	434.6			288.7	18.9	6,965.8	176	
Colorado	5.6	407.5		12.3		50.0	88.2	38.4	15.7				612.0	109	
Connecticut	3.6	730.7		121.6	120.9	56.0	88.1	42.2	19.6		86.4	2.2	1,267.6	352	
Delaware	1.0	70.6		27.0	22.8	8.0	24.6	12.1	3.0		8.7	54.8	231.5	232	353.8
D.C.	0.7	49.5		39.5	52.5		9.0	7.1	2.2	9.2	7.5	33.8	210.3	300	
Florida	21.0	4,652.3		366.1	259.3	578.6	474.0	220.6	59.2	17.8		72.9	6,700.8	319	
Georgia	10.4	2,848.1		525.4	282.6	127.2	155.9	125.6	9.8	9.5	190.9	7.4	4,282.5	412	
Idaho	1.7	158.0	45.4	2.4		6.2	33.2	13.5	3.3			3.0	265.1	156	
Illinois	12.8	1,880.5		278.1	248.8	228.5	161.2	124.8				6.5	2,928.3	229	
Indiana	6.7	935.0		36.4	35.0	89.3	108.2	45.9	5.4	11.8		3.1	1,270.1	190	
Iowa	3.1	244.3	10.9	7.7	4.3	8.6	58.5	21.3	5.6	9.7			371.0	120	
Kansas	2.9	157.4		7.1		19.2	40.1	17.2	5.9		14.2	7.9	268.9	93	
Kentucky	4.5	605.8		149.7	43.5	17.7	77.9	39.8	7.8		82.8	10.3	1,035.2	230	
Louisiana	4.7	217.2		52.1	48.7	34.9	96.2	41.9					491.0	104	
Maine	1.3	223.5		5.7	4.5	17.3	24.4	8.9	3.8	6.1			294.1	226	
Maryland	6.1	750.9		235.4	296.2	54.3	111.2	88.6	13.2		291.1	201.7	2,042.5	335	1,046.7
Massachusetts	6.9	3,592.7			325.2	113.2	130.8	92.6	25.0		996.8	3.4	5,279.7	765	
Michigan	10.0	1,488.2	32.9	371.3	466.5	108.1	116.7	142.7	14.9	71.2	636.8	128.8	3,578.1	358	
Minnesota	5.6	411.2		17.7		40.9	75.4	26.0	6.6	11.7		7.0	596.5	107	
Missouri	6.1	906.8	86.0	78.7	52.4	54.6	103.9	48.3	7.9		57.4	4.3	1,400.2	230	
Montana¹	1.1	17.9				10.3	13.6	4.9	2.7	3.8		3.3	56.5	51	
Nebraska	1.9	100.8		5.5		19.2	38.6	15.0	4.3				183.4	97	
N. Hampshire	1.3	238.9		5.5	4.9	10.1	36.8	17.0	5.5	3.3	8.4	2.7	332.8	256	
New Jersey	9.0	1,911.0		421.3	267.2	223.1	231.9	180.4	41.6	29.4	53.3	-59.4	3,299.7	367	
New Mexico	2.1	72.3		5.6		12.4	29.6	13.2		0.8		0.1	134.0	64	
New York	19.8	4,178.5		887.3	927.0	309.5	408.1	311.8	94.0		822.7		7,938.8	401	2,034.7
N. Carolina	10.3	1,782.8		317.1	145.1	65.4	168.7	78.6	19.2		28.5		2,605.3	253	
N. Dakota¹	0.8					7.5	14.3	6.3	3.2				31.3	39	
Ohio	11.7	1,600.6		340.1	205.1	87.4	148.1	120.1	20.7	145.0	421.2	71.9	3,160.1	270	987.3
Oklahoma	3.9	127.6		5.3		13.2	49.6	22.8	2.0			0.7	221.1	57	
Oregon	4.1	130.4			1.6	41.7	60.1	30.1			102.0	2.5	368.4	90	934.0
Pennsylvania	12.8	2,824.2		270.4	220.7	250.4	272.7	133.9	17.8	114.4	7.6	88.5	4,200.7	328	
Rhode Island	1.1	98.7			23.2	4.5	30.2	13.4	5.0		82.4	1.0	258.4	235	481.4
S. Carolina	5.0	1,260.6		213.1	101.1	23.9	93.2	45.6	12.7				1,750.2	350	
S. Dakota	0.9	30.2				6.1	14.4	4.7	2.6				58.0	64	220.6
Tennessee	6.7	1,287.8		60.4	38.8	32.3	117.9	51.7	8.8		14.7	4.0	1,616.4	241	
Texas	28.3	4,418.3		261.7	114.2	282.0	289.6	261.0					5,626.9	199	
Vermont	0.6	102.0		1.3	1.2	5.2	10.2	4.5	1.7	6.5			132.6	221	
Virginia	8.5	1,184.6		296.6	302.7	46.5	130.8	110.4	15.2	45.4		7.5	2,139.8	252	
Washington	7.4	507.9		18.9		60.2	72.9	54.7			5.7	13.7	734.0	99	
W. Virginia	1.8	99.2		7.9	4.8	10.2	36.5	14.9			3.6		177.0	98	879.0
Wisconsin¹	5.8	419.4	1.0	23.9	13.9	69.1	98.2	39.5				2.4	667.4	115	
Wyoming	0.6					9.7	10.9	5.3	2.9				28.7	48	
Total	309.7	48,919.7	185.0	5,645.1	4,668.7	3,712.7	5,046.4	3,211.8	471.7	516.5	4,211.5	704.6	77,293.7	250	6,937.4
% of total		63.3%	0.2%	7.3%	6.0%	4.8%	6.5%	4.2%	0.6%	0.7%	5.4%	0.9%	100.0%		

* Fiscal year ends June 30 for all U.S. states, except New York (March 31), Texas (August 31), D.C. and Michigan (Sept. 30); ¹ Unaudited sales

Source: La Fleur's 2019 World Lottery Almanac © 2019 TLF Publications, Inc. All rights reserved.

U.S. Lotteries' Fiscal Year 2018 Sales, Prizes & Government Transfers Measured by Gross State Product* (Unaudited)

Lottery	2018 Pop. ¹ (Mil)	2018 Gross Domestic Product ²	Traditional Ticket Sales ³					Gov't Transfers ⁴		PC Sales	PC Gov't	Ticket Sales as % of GDP	Gov't Transfers as % of GDP ⁷	Prizes as % of Ticket Sales	Gov't Transfers as % of Ticket Sale
			Traditional Ticket Sales ³	VLT (net)	Gaming (net)	Prizes ⁴	Gov't Transfers ⁴	PC Sales	PC Gov't						
Arizona	7.2	349,850	981.4			647.7	211.9	137	30			0.281%	0.061%	65.99%	21.6%
Arkansas	3.0	128,887	499.7			341.9	91.9	166	30			0.388%	0.071%	68.42%	18.4%
California	39.6	2,971,045	6,965.8			4,476.6	1,664.9	176	42			0.234%	0.056%	64.27%	23.9%
Colorado	5.7	369,160	612.0			383.5	140.7	107	25			0.166%	0.038%	62.66%	23.0%
Connecticut	3.6	276,191	1,267.6			792.6	350.0	355	98			0.459%	0.127%	62.53%	27.6%
Delaware ^{4,5}	0.7	141,987	231.5	353.8	54.6	136.5	255.8	330	364			0.163%	0.180%	58.96%	43.7%
D.C.	1.0	75,701	210.3			117.4	49.5	217	51			0.278%	0.065%	55.82%	23.5%
Florida	21.3	1,042,888	6,700.8			4,394.4	1,758.3	315	83			0.643%	0.169%	65.58%	26.2%
Georgia	10.5	594,513	4,284.5			2,768.5	1,143.5	407	109			0.721%	0.192%	64.62%	26.7%
Idaho	1.8	77,057	265.1			176.2	54.1	151	31			0.344%	0.070%	66.46%	20.4%
Illinois	12.7	867,714	2,926.4			1,910.9	722.5	230	57			0.337%	0.083%	65.30%	24.7%
Indiana	6.7	373,282	1,270.1			797.3	306.1	190	46			0.340%	0.082%	62.77%	24.1%
Iowa	3.2	191,272	371.0			227.5	87.1	118	28			0.194%	0.046%	61.32%	23.5%
Kansas	2.9	165,415	677.2		404.5	157.9	184.1	233	63			0.409%	0.111%	23.31%	27.2%
Kentucky	4.5	211,535	1,035.2			657.4	266.4	232	60			0.489%	0.126%	63.50%	25.7%
Louisiana	4.7	252,028	491.0			263.6	172.0	105	37			0.195%	0.068%	53.69%	35.0%
Maine	1.3	64,830	294.1			192.5	63.0	220	47			0.454%	0.097%	65.46%	21.4%
Maryland ^{4,5}	6.0	418,594	2,042.8	1,046.7	632.3	1,248.7	1,255.9	338	208			0.488%	0.300%	61.13%	40.7%
Massachusetts	6.9	576,567	5,279.7			3,891.9	997.1	765	144			0.916%	0.173%	73.72%	18.9%
Michigan	10.0	537,994	3,578.1			2,215.0	944.2	358	94			0.665%	0.176%	61.91%	26.4%
Minnesota	5.6	366,530	596.5			370.6	145.1	106	26			0.163%	0.040%	62.14%	24.3%
Missouri	6.1	320,087	1,400.2			939.5	333.4	229	54			0.437%	0.104%	67.10%	23.8%
Montana ⁶	1.1	50,067	56.4			32.6	10.7	53	10			0.113%	0.021%	57.71%	19.0%
Nebraska	1.9	124,577	183.4			106.6	45.3	95	23			0.147%	0.036%	58.15%	24.7%
N. Hampshire	1.4	86,701	337.8			211.5	87.3	249	64			0.390%	0.101%	62.63%	25.8%
New Jersey	8.9	634,346	3,359.1			1,991.6	1,030.3	377	116			0.530%	0.162%	59.29%	30.7%
New Mexico	2.1	99,583	134.0			73.1	40.2	64	19			0.135%	0.040%	54.57%	30.0%
New York ^{4,5}	19.5	1,694,952	7,938.8	2,034.7		4,816.3	3,371.9	406	173			0.468%	0.199%	60.67%	33.8%
N. Carolina	10.4	569,781	2,605.3			1,647.8	678.6	251	65			0.457%	0.119%	63.25%	26.0%
N. Dakota ⁶	0.8	55,968	31.3			16.1	8.0	41	11			0.056%	0.014%	51.55%	25.7%
Ohio ^{4,5}	11.7	679,824	3,160.1	987.2		1,998.7	1,087.7	270	93			0.465%	0.160%	63.25%	26.2%
Oklahoma	3.9	202,340	221.1			129.6	64.0	56	16			0.109%	0.032%	58.62%	28.9%
Oregon ^{4,5}	4.2	241,670	368.4	934.0		231.7	708.3	88	169			0.152%	0.293%	62.89%	54.4%
Pennsylvania	12.8	797,782	4,200.6			2,733.8	1,093.7	328	85			0.527%	0.137%	65.08%	26.0%
R. Island ^{4,5}	1.1	61,888	258.4	481.4	145.8	154.5	365.0	244	345			0.417%	0.590%	59.78%	49.3%
S. Carolina	5.1	232,804	1,750.2			1,149.8	431.0	344	85			0.752%	0.185%	65.70%	24.6%
S. Dakota ^{4,5}	0.9	52,218	58.2	110.3		33.7	124.8	66	141			0.111%	0.239%	57.89%	74.0%
Tennessee	6.8	369,345	1,616.4			1,023.9	421.7	239	62			0.438%	0.114%	63.34%	26.1%
Texas	28.7	1,782,861	5,626.9			3,666.1	1,450.5	196	51			0.316%	0.081%	65.15%	25.8%
Vermont	0.6	33,846	132.4			87.4	27.2	212	43			0.391%	0.080%	66.00%	20.5%
Virginia	8.5	539,353	2,139.8			1,307.7	606.2	251	71			0.397%	0.112%	61.11%	28.3%
Washington	7.5	568,575	733.9			457.9	183.0	97	24			0.129%	0.032%	62.39%	24.9%
W. Virginia ^{4,5}	1.8	78,345	177.0	879.0	35.2	105.2	494.6	98	274			0.226%	0.631%	59.42%	46.8%
Wisconsin ⁶	5.8	339,100	667.4			404.5	163.3	115	28			0.197%	0.048%	60.60%	24.5%
Wyoming	0.6	40,995	28.8			14.8	4.7	50				0.070%	0.012%	51.37%	16.5%
Total	310.9	19,710,048	77,766.3	6,827.0	1,272.4	49,502.8	23,695.3	250	76			0.395%	0.120%	63.66%	30.5%

* Fiscal year ends June 30 except New York (March 31), Texas (August 31) and D.C. and Michigan (Sept. 30). ¹ Source: U.S. Census Bureau

² Source: U.S. Bureau of Economic Analysis; ³ This data represents only revenue from traditional lottery games; ⁴ Prizes do not include VLT prizes paid

⁵ Includes government transfers for VLT operations; ⁶ Unaudited

Note: If a lottery's operating statement did not include actual profits raised for government, the "government transfers" may represent the net income.

Source: La Fleur's 2019 World Lottery Almanac © 2019 TLF Publications, Inc. All rights reserved.

Missouri State Lottery Commission
Schedule of Capital Asset Information
Last Ten Fiscal Years
(Unaudited)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Owned buildings - square feet										
Headquarters										
1823 Southridge Drive										
Jefferson City, Mo. 65109	62,696	62,696	62,696	62,696	62,696	62,696	62,696	62,696	62,696	62,696
Distribution Center										
911 Bubba Lane										
Jefferson City, Mo. 65109	16,017	16,017	16,017	16,017	16,017	16,017	16,017	16,017	16,017	16,017
Fleet of owned vehicles										
Passenger vans - sales staff	49	49	49	49	49	49	49	49	49	49
Delivery vans	3	0	1	1	1	1	1	1	1	1
Passenger vans - vehicle pool	8	11	9	21	16	14	18	18	21	18
Passenger cars - vehicle pool	1	0	0	0	0	0	0	0	0	0
Trucks	3	3	3	3	4	3	3	3	3	3
Event trailers	1	1	1	1	1	1	1	1	1	1
	<u>65</u>	<u>64</u>	<u>63</u>	<u>75</u>	<u>71</u>	<u>68</u>	<u>72</u>	<u>72</u>	<u>75</u>	<u>72</u>

Source: Missouri State Lottery Commission Maintenance and Vehicle Sections

Division of Each Dollar Spent on the
Missouri Lottery - Fiscal Year 2019
(Unaudited)



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Compliance Section



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Missouri State Lottery Commission
Jefferson City, Missouri

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Missouri State Lottery Commission, an enterprise fund of the state of Missouri, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Missouri State Lottery Commission's basic financial statements, and have issued our report thereon dated November 15, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Missouri State Lottery Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Missouri State Lottery Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Missouri State Lottery Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

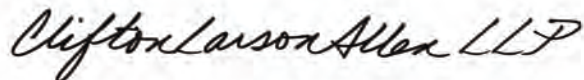
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Missouri State Lottery Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

St. Louis, Missouri
November 15, 2019

MISSOURI STATE LOTTERY COMMISSION
(An Enterprise Fund of the State of Missouri)

SCHEDULE OF CURRENT YEAR FINDINGS AND RESPONSES
June 30, 2019

No findings in the current year.

MISSOURI STATE LOTTERY COMMISSION
(An Enterprise Fund of the State of Missouri)

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2018

No findings in the prior year.

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